

Essays in the Economics of Religion and Family

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By

Clara E. Jace
Master of Arts
George Mason University, 2019
Bachelor of Science in Business Administration
Creighton University, 2017

Director: Peter J. Boettke, Professor
Department of Economics

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DEDICATION

To my family, and in a particular way, to the four marriages that made it possible.

First, to my Grandpa Ron and my Grandma Laura. Their lifelong marriage taught me what it means to be creative and to encourage others in their own creativity—whether gardening, woodworking, crafting, cooking, or pursuing a research idea. As my Grandma Laura passed away earlier this year, this work is dedicated especially to her memory.

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ABSTRACT

ESSAYS IN THE ECONOMICS OF RELIGION AND FAMILY

Clara E. Jace, Ph. D.

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Dissertation Director: Dr. Peter J. Boettke

“It is the glory of God to conceal things,
but the glory of kings is to search things out.”

– Proverbs 25:2, NRSV

This dissertation studies religion and family from the economic point of view. What distinguishes the economic approach from the other social sciences is that it adheres to a set of natural economic laws applying to human action regardless of time and place. Thus, all actors in the following chapters receive alike treatment—priests, parents, autocrats, and so on. The economic anthropology can be summarized as such: agents purposefully choose to maximize net perceived benefits, and in doing so, depend on one another.

What further joins these projects is their attempt to understand how both religious and familial organizations relate to the state. What comparative advantage does each organization possess? Why have family and religion persisted throughout time, and what explains their organizational structure? How does exchange occur across these organizations? Though the subsequent questions have been debated before my time and will continue to be debated, it is my hope that these papers represent a small contribution

to truth and knowledge. Moreover, as families, religious groups, and states are evolving more rapidly today than perhaps ever before, answering these questions will become only more important for those concerned with flourishing and peace in all corners of society.

Chapter One of this dissertation is based upon my paper “An Economic Theory of Economic Analysis: The Case of the School of Salamanca” published in *Public Choice* (2019). I argue that the initial discovery of economic laws by the School of Salamanca in 16th-century Spain can be understood as the supply response to an increased demand for economic analysis at that time. In particular, both the professor-priests of the School and transatlantic merchants had an incentive to more fully understand the relationship between economic phenomenon and policy in order to protect their property against the advances of the king. In studying and participating in everyday business transactions – often for the immediate end of guiding the spiritual life of businessmen in the confessional – the School of Salamanca became the first identifiable tradition of economic analysis. Its closest heir is the Austrian school of economics today.

Chapter Two is entitled “Autocratic Family Policy.” This research project investigates the puzzle of Soviet family policy, during which the Party pushed for revolutionary policies – such as unilateral divorce and legalized abortion – only to overturn them a generation later. I argue that this contradictory behavior can be explained by a theory of autocratic family policy that draws upon family economics and public choice. Viewing the family as a private, people-producing firm, the autocrat faces a tradeoff when selecting his family policy: encourage familial production for greater consumption in the long-run, or discourage familial production for greater consumption in the short-run. In the Soviet

context, the period of anti-family policy can be explained by the relatively greater value of short-run consumption to the Party, whereas the period of pro-family policy makes sense when the Party had a longer time horizon.

Finally, Chapter Three presents my paper “Complements or Substitutes? A Study of Welfare Services in Utah,” which was coauthored with Dr. Bobbi Herzberg and published in *Cosmos+Taxis* (2021). We begin this work by pointing out that the welfare provided by a state and the welfare provided by a church are differentiated products in the eyes of taxpayers and tithes-payers. When are they demanded as complements and when are they substitutes? To answer this question, we look at the case of Utah, where both state and LDS church welfare are structured similarly (and are similarly successful). This unusual case can be explained by the large proportion of tax-and-tithe payers in Utah, since voters who fund both welfare systems have an incentive for each to increase, rather than decrease, the value of one another.

CHAPTER 1: THE SCHOOL OF SALAMANCA

1. Introduction

“Omnium scientiarum princeps Salmantica docet.”
—motto of the University of Salamanca¹

The demand for economic analysis is a derived demand.² While such analysis can serve as a final good—as “truth” for pure consumption purposes—it frequently is demanded as an instrumental good, that is, as “facts” for further productive purposes. This paper takes up the latter purpose, viewing the supply of economic analysis as an input into the production of economic arguments. Economic arguments are then used to change minds, policy, and other concrete variables of interest. However, it is important to bear in mind that ideas are non-rival; suppliers could be motivated by both truth-seeking and demand since economic analysis can fulfill both purposes simultaneously.

Economics itself can say at least five things about the demand for economic analysis. First, the demand for economic analysis increases when the demand for economic arguments increases (and falls when it falls). Second, when the demand for particular kinds of economic arguments increases, more inputs will be devoted to the production of the corresponding particular kind of economic analysis. Third, individuals

¹ “The principles of all sciences are taught in Salamanca.” Little did they know that they also taught the principles of sciences yet to be discovered—economics.

² See Tollison (1986) for an excellent overview of the role played by economic incentives in the discovery of key economic ideas and the creative process more broadly.

who have relatively high opportunity costs of producing economic analysis will outsource to other with lower opportunity costs (comparative advantage) as the market extends. Fourth, producers will supply economic analysis up to the point where its marginal benefit equals its marginal cost. Fifth, in the long run, similar kinds of economic analysis will be produced using similar methods of production.

This “market” for economic analysis naturally can be divided into demand and supply forces. Historically, the most common demander of economic analysis has been the ruler, searching for particular arguments in support of his preferred political moves (or even to suggest wealth-maximizing courses of action).³ Another source of demand arises from interest groups within the economy, as during the antitrust policy era (see Director 1964; Bork 1967; Posner 1979; Stigler 1982, 1992; Shughart and Tollison 1985, amongst others). Here, economic analysis provides a standard against which the sustainability (or feasibility) of economic arguments for various policies might be measured. By examining the effects of specific policies upon specific economic variables, a new kind of economic analysis was developed, namely, the field of law and economics. That parallel with the School of Salamanca hardly is surprising given that, prior to the rise of Mercantilism and consequent birth of political economy as a distinct subject, the Doctors saw their economic analysis as a handmaiden to questions of ethics and law.⁴ Moving on to the supply side, Tollison (1986, p. 912) generated three

³ See Backhaus and Wagner (1987) on the role of the cameralists in producing economic arguments during the middle of the sixteenth to the nineteenth centuries for princes who demanded them largely because the costs of mobility increasingly had fallen (making it difficult to tax their subjects as heavily as before).

⁴ “The great difference between scholastic and contemporary economics is one of scope and methodology: the Doctors approached economics from a legal point of view” (de Roover 1995, p. 185). Throughout the

predictions with regard to economic discoveries: “One would expect to find more discovery the lower the opportunity cost, the greater the number of inputs devoted to discovery, and the larger the market for ideas”. Stigler (1980) emphasizes the response of supply to demand incentives for economic ideas in his “sermon on economic sermons”, where he argues that economists are led by the cares of their age much more than is commonly (or comfortably) acknowledged.⁵ Both of those scholars emphasize a key point adopted in this paper: economic incentives matter in the production of economic analysis.

To weigh the claims herein, I focus on a group of professor-priests in sixteenth-century Spain known as the School of Salamanca, who responded to incentives from an increasingly influential interest group within the economy—transatlantic merchants. Spanning more than 100 years (1483-c.1617) of lectures, letters, handbooks and treatises, the School’s Doctors are recognized widely by historians of thought as having developed the first tradition of economic analysis.⁶ Their two main discoveries—the subjective theory of value and the quantity theory of money—generated the particular kinds of economic arguments that merchants could leverage to shift both political and ecclesial laws in favor of commerce. Those principles emerged from their responses to previous work on the Just Price doctrine and Mercantilism (which influenced both canon and

paper, I will refer to the Spanish Scholastics using the broad, traditional term “Doctors” because their training and scholarship encompassed both theological and juridical (Roman and canon) disciplines.

⁵ In his words: “[W]e are well received in the measure that we preach what the society wishes to hear. Perhaps all preachers achieve popularity by this route” (Stigler 1981, p. 159).

⁶ “It is within their systems of moral theology and law that economics gained definite if not separate existence, and it is they who come nearer than does any other group to having been the ‘founders’ of scientific economics” (Schumpeter 1954, p. 97).

Spanish law). For example, working from the subjective theory of value, the Doctors updated just-price theory by asserting that the just price was in fact that which prevailed in competitive market conditions (Roover 1958). From there, economic arguments could be made for lesser state intervention in issues of pricing. For example, Schoolman Tomás de Mercado ([1569] 2017, p. 83) recalls a Roman law that did not “undo the sale or purchase” of a good, even if it was far above the “fair value”, to illustrate this point: “The law does not approve or praise deceit, but [it] implies that it was better to leave him to the divine judgment ... in such delicate business [the judge] would often err if he intermingled”.⁷

Using the basic economic framework of supply and demand, I show that the emergence of this first market for economic analysis unfolded with a simple logic:

1. Merchants’ demand for economic arguments increased as updating commercial rules would allow them to capture more benefits from burgeoning trade in the New World.
2. Particular kinds of economic analysis were needed as inputs to underpin and justify their arguments for less costly commercial rules.
3. The School produced the kind of economic analysis in highest demand and reaped benefits from the exchange.

Though merchants and School members found this trade valuable in different ways, one shared incentive was protecting against the increasingly indebted Crown that recently had

⁷ In cases where the political authorities did intervene, some Doctors leveraged their economic analysis to make economic arguments for providing recompense to the injured parties. As Leonardus Lessius (1554–1623) taught: “Take the following example. Without reason, a magistrate excludes some sellers from the market. The price of your goods rocket. The magistrate is obliged to indemnify the citizens for the damage they suffered as a result of this price increase because, contrary to the duties of his office, he caused the prices to climb so high. You, on the other hand, are not obliged to make compensation; under these circumstances your goods were simply worth the price for which you sold them” (Lessius [1605] 2007, p. 25).

set its sights on wealth in both spheres.⁸ For the Doctors, at least three more economic incentives underpinned their supply response: direct merchant compensation (pecuniary and nonpecuniary), competition with other sources of authority to maintain their spiritual and temporal influence, and protecting the international wealth of the Roman Catholic Church (to which they all belonged). Those demand- and supply-side forces shed light on the emergence and direction of the scholastic tradition of economics—particularly its focus on the subjective theory of value and quantity theory of money. Notably, the economic incentives faced by the School also explain why they surpassed their own ecclesial tradition in their explicit defenses for private property, the profit motive, and commercial activity writ large.

2. *A primer on the School of Salamanca*

The School of Salamanca spans from its founder, Francisco de Vitoria (1483–1546), down to his pupils and pupils’ pupils in the latter half of the 1600s. Vitoria is best known today as the father of international law, having used his *relectio*—an annual required course taught by faculty, for faculty— to establish “the rights of the Indians to their freedom, their property, their territories, and their self-governance” (Hernandez 1991, p. 1040). He thus rejected both royal and papal authority by which conquest had been declared just, a position that won him the fury of the king.⁹ What unifies the School

⁸ Phillip II exercised monarchical self-control by defaulting on his loans only in 1557, 1560, 1575, and 1596. Solutions to royal financial pressures were found by increasing taxes on the merchants and capturing a larger share of ecclesial tithes and property.

⁹ Charles V sought to reprimand him (although Vitoria later would be asked back as an advisor): “[T]he emperor did react in 1539 with a letter to the principal of the Convent of San Esteban, where both Vitoria and Soto were residing, to prevent their teaching and to destroy their manuscripts” (Koskenniemi 2011, p. 10).

is its relentless application of the scholastic method and careful empirical research, both serving as inputs into their production of economic analysis. Scholarly interest in Late Scholastic economic thought has been flowering for some time. The volumes of Marjorie Grice-Hutchinson (1952, 1978), Schumpeter (1954), and a series of papers by Hoover (1951, 1955, 1958), and the more recent contributions of Baeck (1988), Melé (1999), Chafuen (1986, 2003), Alves and Moreira (2013a, b), Bernal (2017), and Gonzalez (2017), have revived interest in their body of economic thought. Why did the School produce economic analysis? Past scholars have brushed past that question with two theories, emphasizing either the preferences of the authors or their moral commitment to truth-seeking.¹⁰ An economic theory of economic analysis would view the supply of economic analysis as a response to incentives provided by demanders (though all three theories are not mutually exclusive).

The earliest chroniclers of the School provided a “dataset” of primary evidence taken advantage of in this paper. For instance, Grice-Hutchinson (1952, p. 48) reports that the subjective theory of value was first proposed in 1554 by Diego de Covarrubias, a professor of canon law at the University of Salamanca, Archbishop of Segovia, and president of the Council of Castile:

The value of an article does not depend on its essential nature but on the estimation of men, even if that estimation be foolish. Thus, in the Indies wheat is

¹⁰ “Monetary theorists are born in all ages and they were not lacking in sixteenth-century Spain, which was indeed the happiest of playgrounds for theologians whose tastes lay in what would now be called economics” (Grice-Hutchinson 1952, p. 18); “a preoccupation with the ethics of pricing ... is precisely one of the strongest motives a man can possibly have for analyzing actual market mechanisms” (Schumpeter 1954, p. 57); “[b]ecause of their preoccupation with ethics, the Doctors were also more interested in what ought to be than in what actually was” (de Roover 1955, p. 185).

dearer than in Spain because men esteem it more highly, though the nature of the wheat is the same in both places.

That same Doctor also recorded a handbook full of statistics tracking the fluctuating price of the *maravedí* (a medieval Spanish coin), which paved the way for other Doctors—the very first being Azpilcueta Navarro in 1556—to theorize that it was the high imports of treasure that caused Spain’s high cost of living (Grice-Hutchinson 1952). As Grice-Hutchinson (1952, p. 94) records from his treatise on the “Origins and Functions of Money”:

[A]ll merchandise becomes dearer when it is in great demand and short supply, and that money, in so far as it may be sold, bartered, or exchanged by some other form of contract, is merchandise, and therefore also becomes dearer when it is in great demand and short supply.

The successive restatement and refinement of those two principles served to build up a body of economic thought accepted by the School’s vast majority.¹¹ Both examples of economic analysis address the economic changes brought on by the discovery of the New World—a clue.

The Late Scholastics developed their ideas in response to constant petitions from merchants in their own families, friendships, universities, clerical duties and business relations. The most popular merchant handbook of its time, *Suma de Tratos y Contratos* by Fray Tomás de Mercado ([1569] 2017), opens by expressing gratitude to his friend Angelo Brunengo, a Sevillian businessman who had urged him to compile the volume. Stories such as those were not isolated but were in fact part of an international tide, as is

¹¹ De Roover (1955, p. 180) highlights how their teachings were advantageously consistent: “One of the most striking characteristics of scholastic economics was universalism: regardless of origin and nationality, the Doctors are in fundamental agreement on method and principles”.

evidenced by an appeal to the Doctors of the University of Paris by the merchants of Antwerp in 1530:

All these things considered, together with any others which you, Reverend Masters, may please to investigate concerning this case, we beg you to inform us, as learned men in whose hands we place our consciences, whether this business is or is not lawful (quoted by Grice-Hutchinson 1952, p. 125).¹²

Certainly not all merchants demanded a change in existing commercial rules—some benefitted mightily from the status quo—but those particularly involved in the New World found the many commercial restrictions to be especially burdensome owing to the uncertain nature of transatlantic trade and the new taxes, monopolies, and regulations imposed on them by the Crown.¹³ It was that pressured, powerful group of merchants that the School of Salamanca engaged with in the trade of economic analysis.

To understand the incentives for trade between the School and the merchants, the literatures of the economics of religion, public choice and endogenous rule formation are germane. Ekelund, Hébert and Tollison's (2002) groundbreaking economic approach to the Protestant Reformation is similar to the analysis in this paper in that it views the Church as a firm, studying both the supply and demand side of spiritual services.¹⁴ However, a salient difference is that the Doctors of Salamanca supplied a good that was not simply “spiritual” but could be used for economic purposes as well. The religious sphere was enmeshed in the political and economic realms in Spain at the time; many of

¹² The Doctors at Paris refused to recognize exchange (that is, currency exchange across time and distance) as legitimate. Interestingly, Vitoria was studying in Paris at the time and authored many of the responses. His students would later go on to argue for the legitimacy of these very exchanges (e.g., Tomás de Mercado).

¹³ That conclusion is consistent with DeLong and Shleifer's (1993) analysis of the negative impact that an absolutist prince, whom they explicitly typify as Philip II (1527–1598) of Spain, has on economic growth.

¹⁴ See also Ekelund and Hébert (2010).

the Doctors were Roman Catholic prelates in positions of significant power within the Spanish empire during the Inquisition (1478-1834), which meant that they could seek rents by influencing economic policy through their theological teachings.¹⁵ Similar to Leeson and Russ (2018), I argue that the School's production of commercial rules was a form of non-price competition between the Catholic and Protestant clergy for the loyalty of the merchant class. One can identify at least two reasons for the merchants constituting a "confessionally contested part of Christendom": merchants moved relatively more easily between Catholic, Protestant, and pagan countries, and their societal influence was positively correlated with their increasing wealth. As worthy congregants, the School responded to incentives provided by merchants (rather than to those of the prince, for example). From a public choice perspective, Batchelder and Sanchez (2013) investigate Spain's *encomienda* system in the New World. According to them (p. 55), "[w]hile Church officials expressed moral and ethical opposition to the *encomienda*, these arguments were also consistent with the economic interests of the Church". I likewise argue that the School of Salamanca itself benefitted from producing their particular kinds of economic analysis. Those Church leaders responded to changed incentives by using their influence to persuade the Crown that seizing ecclesial or commercial wealth was akin to playing with fire that could imperil their souls (and coffers) (Leeson 2013).

¹⁵ To give an example of their influence: Domingo de Soto (1494–1560) represented King Charles V at the Council of Trent and also became the Emperor's confessor; Diego de Covarrubias y Leyva (1512–1577) was the President of the Council of Castile; Martin de Azpilcueta (1493–1586) was called to Rome in 1567, where he advised three successive popes (de Roover 1955). Rothbard ([1995] 2006) explains the School's influence on contemporary and future thinkers in greater detail.

The economic literature on endogenous rule formation is close cousin to a theory of the production of economic analysis that could result in less costly commercial rules. A classic case is Benson's (1989) analysis of the international body of commercial law known as *lex mercatoria* or "Law Merchant", which arose in the twelfth century from the merchants' need for consistent expectations when trading across legal systems. At least three similarities can be found between the Law Merchant and the commercial rules produced from the School's analysis. First, both followed a surge in international trade and originally emerged as customary law, that is, rules of conduct recognized reciprocally by individuals since conforming to prescribed expectations would be in their self-interest. In customary law, a judgment "typically [is] enforceable because of an effective threat of total ostracism by the community" (Benson 1990, p. 15). That conclusion gains additional meaning in light of the School of Salamanca's clerical role: while commercial guidance is of lesser status in terms of Church authority, ecclesial teachings applied *in foro conscientiae* through the sacrament of confession; the threat of excommunication ultimately provided a powerful enforcement mechanism for Catholic government officials (Roover 1951). Second, in dealing primarily with economic behavior, both sets of rules applied universally. Rules that dovetailed with the natural human propensities to truck, barter and exchange were well-suited to function as a "language of interaction" across religions and cultures (Benson 1989). A third similarity between the School's thought and the *lex mercatoria* is in content. Not only did the Law Merchant find its roots in Roman commercial law, but in the Church's canon law as well, against which all of the School's writings were checked and declared *nihil obstat* (containing nothing against

faith and morals), and which likewise enshrines significant portions of Roman civil law. The services provided by the School of Salamanca can be seen as a substitute for the Law Merchant, which by the sixteenth century largely had been subsumed or supplanted by governmental (authoritarian) law and the common law (the latter primarily in England).¹⁶

Another aspect of endogenous rule formation is dealt with by Priest (1977), who points out that economically inefficient legal rulings are more likely to be changed than efficient legal ones because inefficient rulings (by definition) impose heavier costs on the parties involved. Leeson and Coyne (2012) approach rule formation by illustrating how norms, defined as privately created rules and enforcement mechanisms in service of protecting property rights, serve as important substitutes for legal proceedings. They document examples from history of property securing norms that emerged when individuals physically moved beyond the scope of their original governments (e.g., to the Wild West). Likewise, the race to the New World presented the conditions for such norms to arise by way of the School's moral guidance. Leeson (2005, 2006) handles the enforcement of norms across socially distant groups in the context of screening for signals of credibility. An additional function of the School's handbooks for merchants was that they could be used to signal credibility across widening circles of trade. While previous literature has dealt with the supply and demand of economic discovery, spiritual goods, laws, norms, and other streams of services similar to those produced by the

¹⁶ Benson writes: "The shifting of enforcement cost onto the government is consistent with the increasing political power and political activity of merchants. Indeed, the overall trend in economic regulation of the period was primarily motivated by merchant demands for monopoly rights" (1990, p. 60). In other words, merchants found it in their interest to outsource the production of commercial rules to the School of Salamanca.

School, I provide an economic theory of the derived demand for economic analysis that was an efficient response to economic incentives experienced by the merchants and the School of Salamanca.

3. An economic theory of economic analysis

This section analyzes the “market” for economic analysis within the standard framework of supply and demand. Because the demand for economic analysis is a derived demand, the end to be maximized depends upon which economic argument is desired (thus necessitating a corresponding kind of economic analysis). The prime mover simply could be the prince or merchant who wants to maximize his wealth and demands economic arguments to slacken his legal constraints. Supply-side incentives are more complex, especially since the move from economic analysis to economic arguments (for policy changes) often approximates a switch from the positive to the normative.¹⁷ That distinction may explain why two distinct markets exist: producers of economic analysis can avoid certain costs associated with adopting normative positions by remaining one degree removed from the production of such arguments. Even still, it can be said that suppliers of economic analysis will receive recompense they value, such as money, political power and university chairs (the institutional context of the market largely

¹⁷ Here and henceforth, economic analysis is understood to be the scientific nature of economic inquiry (i.e., economic principles) that is conveyed in theory through the medium of a scholarly economic research paper, while economic arguments involve mobilizing economic analysis for a particular end, something similar to the aims of policy papers (or policy sections of papers).

determines those particular features).¹⁸ Basic economic theory suggests the five following general predictions about a market for economic analysis.

1. The demand for economic analysis increases when the demand for economic arguments increases (and falls when demand falls).

That prediction follows from the claim that the demand for economic analysis is a derived demand. Economic arguments have not always been valued throughout history; in fact, the current authority of the economic approach is more an exception than the rule. Historical substitutes for economic arguments generally were arguments from moral authority—made possible since communities (and then even states) were organized around a view of the natural world and supernatural world held in common. As a practical matter, then, economic analysis should emerge only when the demand for economically based arguments is sufficiently high. That principle applies not only across time but also permeates the layers of society. Consider how a parent would not be expected to produce economic analysis for the purpose of changing a child’s behavior when a less costly strategy would be to adopt an authoritative argument.¹⁹

2. When the demand for a particular kind of economic argument increases, more inputs will be allocated to the production of the corresponding particular kind of economic analysis.

¹⁸ For example, Smith (1904, Book V, Ch. 1, Part III, Art. II) highlighted the principal-agent problem in the payment structure of professors at Glasgow University, where compensation was paid directly by students to professors, versus at Oxford where the university compensated the professors (1904). The result: “In the university of Oxford, the greater part of the publick professors have, for these many years, given up altogether even the pretence of teaching.”

¹⁹ One could adopt the same argument to explain why economics generally is not taught until high school. The return to economic arguments grows as individuals expand their choice sets.

Not all kinds of economic analysis are created equal. One way to approach the discovery of economic principles is to see what particular function they served given their distinct historical context (Tollison 1986). That might be more difficult for the average economist to see rather than the average layman, as a disproportionate amount of the economist's time is spent appreciating (or agonizing over) the interconnectedness of economic phenomena. However, it should be evident that a theory like the quantity theory of money applies to a much different real-world context than the insight that the division of labor depends on the extent of the market. The economic analysis that can be leveraged for the most profitable economic arguments will be produced first. Producers of economic analysis respond to relative prices (just like everyone else).

3. Individuals who have relatively high opportunity costs for producing economic analysis will outsource to others with lower opportunity costs (comparative advantage) as the market expands.

Economic analysis does not emerge from a vacuum; rather, explicit and implicit costs are incurred during its production and exchange. In every market, certain individuals will face the lowest opportunity cost of production. The production of economic analysis generally includes investments in literacy, research, data collection, methodology and, perhaps, even joining a research society. As the demand for economic arguments increases, the market extends, and the profit motive guides individuals with comparative advantages into production. A clear example of that observation explains why professors (with access to time, libraries, colleagues, and so on) produce economic analysis,

whereas politicians and businesspeople, who can benefit the most from economic arguments given their activities, demand it the most. That prediction also operates at another level, by explaining, for instance, the recent emergence of family economics (see Becker 1965, 1981). Families of the modern era did not have much reason to demand economic analysis until recently, perhaps, when unprecedented demographic changes and family policy have become prominent features of political discourse.²⁰

4. Producers supply economic analysis up to the point where its marginal benefit equals its marginal cost.

Individuals specializing in the production of economic analysis have incentives to produce it efficiently. Of course, that prediction is borne out most clearly in a competitive market where firms produce up to the point where the marginal benefit is equal to marginal cost. The particular kinds of economic analysis that are produced give clues as to the kinds of economic arguments demanded at certain times and places. The economic analysis left “unproduced” supplies equally as much information, signifying that certain arguments were too costly to make under given circumstances.

5. Similar kinds of economic analysis will be produced with similar methods of production.

This last prediction raises a simple point with significant implications.

Methodology always has been a contentious focal point in the economics

²⁰ See Mokyr (2002), especially his discussion of the effects of innovation on the household in the chapter “Knowledge, Health, and the Household.”

profession, and for good reason, since the method chosen for production constrains the feasible set of goods to be produced. For example, rational choice theory can investigate questions different from those adopting a behavioral or experimental approach. Different questions beget different theories, which may be used for different arguments. Again, from a derived demand perspective, the desired economic argument will influence how the economic analysis is produced.

4. Applying economic analysis to the Salamanca school's economic analysis

Economic analysis was supplied by the School of Salamanca to the merchants so that economic arguments could be produced in favor of less costly commercial rules. In this section, I trace the harmony of interests—lenders to the Crown in an inflationary period, bearers of significant new tax burdens, and joint investors in the transatlantic trade—that led merchants and the School to initiate their mutually beneficial exchange. That goal is reached by first analyzing the emergence of demand and supply and then by testing the previous five predictions of a market for economic analysis in the case of the School of Salamanca.

4.1. Analysis of demand

As in every age, what began as an increase in economic opportunity from the opening of the New World did not remain simply so.²¹ Individuals left out of the benefits of trade—

²¹ Likewise, expanded economic opportunities always come at a cost. Merchants frequently sought excuses to exploit the native peoples, which was the area in which the School imposed the strongest constraints on merchant behavior (see Bartolomé de Las Casas). Ironically, the treatment of native peoples too put the Doctors of the School at odds with the Crown, who followed incentives to cater to merchants in that regard (see the debates and legacy of Spain's New Laws of 1542).

not only farmers and artisans, but the King himself—increasingly sought ways to claim their shares of the *siglo de oro*, this golden age. The prosperous merchant class faced new economic challenges as the *diluvio*, the flood of precious metals, raw materials, and tales of opportunity in the New World continued to flow. Three major arenas of change emerged—new monopolies, more taxes, and higher inflation—each corresponding to particular kinds of economic analysis produced by the School.

The Crown did its best to keep one step ahead of the commercial eruption, so in 1503, Queen Isabella established the *Casa de Contratación de las Indias*, the House of Trade of the Indies, which effectively created a monopoly over trading rights in the New World since all voyages were required to register and use the Casa for captain training and route maps. Merchants quickly leveraged any political influence they carried to secure special privileges; for instance, a certain Alvaro de Bazán was granted exclusive rights to captaining ships and carrying the King’s treasure from the Indies for 15 years until the *Consulado de mercedes*, the Sevillian Merchant’s Guild, appealed to the crown to restore free navigation and trade with the Indies (Pike 1972).²² The *Consulado* had been established in 1543 and acted as a mercantile tribunal and enforced commercial treaties between trading partners (R. S. Smith 1940). It was the largest, organized group of merchants with whom the Doctors openly exchanged their economic analysis.²³ The

²² For further information regarding the history of the *Consulado*, see Smith’s (1940) book *The Spanish Guild Merchant*. Greif et al. (1994) advance an argument for the efficiency of merchant guilds in governing the relationship between rulers and alien merchants.

²³ de Mercado (1569, p. 26) explicitly dedicates his handbook to the *Consulado*, showing merchants the way to pursue earthly wealth “so as not to lose the eternal wealth in dealing with the temporal one”. He adds a guarantee: “Hence, the Merchants’ Guild of Seville may be assured of this doctrine, and rejoice in having their contracts solved by this famous university ... to have a plain solution to the contracts that are most celebrated in these kingdoms and in the Indies” (de Mercado [1569] 2017, p. 26).

analysis provided to merchants had wide reach and, by the year 1580, the king had instructed the *Casa* to consult the *Consulado* before taking action with regard to trade regulations, administration, and other fiscal matters (Smith 1940).²⁴

New prosperity and a debt-ridden Crown meant new taxes as well. A tax of one-fifth, the *quinto real*, was to be collected on all imports that came through the *Casa* (Kindleberger 1998). The traditional land tax was increased, and other taxes were imposed on Spain's most profitable industries like wool and salt—all of which incited incessant complaints from the Spanish people (Lovett 1980; Phillips 1983). The *alacabala*, a new tax on currency exchanges, “pushed many merchants out of trading in merchandise to dealing in money or investing in *juros*, perpetual 5 percent bonds” (Kindleberger 1998, p. 11). An ad valorem duty on goods going to and from the New World, the *avería*, began at 1% in 1521 and ranged as high as 14% by 1596, at which point the *Consulado* protested that trade would be destroyed and negotiated it down to 7% (Smith 1940). Not infrequent evasion of registration, taxes, and tariffs is evidenced by the number of cases heard by the maritime tribunal; however, accused merchants had an ally in the *Consulado*.²⁵ The Crown was even so desperate as to remove the tax-exempt status of the clergymen and cathedral chapters—an unpopular move that placed

²⁴ Essentially a case of re-regulation at a more encompassing level. Thomas and Leeson (2012) provide an analysis of the interplay between productive and unproductive entrepreneurial activity by examining the case of Bavaria's brewing industry in the fourteenth to sixteenth centuries.

²⁵ “The penalties of confiscation of property and perpetual exile for the importation of unregistered treasure were applicable to the prior and consuls, if convicted of abetting the evasion of registration. Since the guild often interceded on behalf of those prosecuted for possession of unregistered bullion, securing pardons or a mitigation of the penalties, and, finally, had a hand in the abolition of compulsory registration, plainly the *Consulado* failed to share fully the mercantilist preoccupation of the state to prevent the drain of specie to foreign parts” (Smith 1940, p. 101).

the Church's interests dangerously close to those of the tax-burdened merchants (Espinosa 2006).

Monopolies and new taxes aside, Spanish merchants also operated within an increasingly inflationary economy as the infamous Price Revolution was underway (Hamilton 1934, 1938). Prices doubled in the first half of the sixteenth century, and by the end of the second half, they had doubled once again (Grice-Hutchinson 1978). After gathering estimates of the precious metal inflows based on the remittances registered at the *Casa* in Seville (minus the smuggled portion that evaded duties), Hamilton (1934, p. 301) shows: “the extremely close correlation between the increase in the volume of treasure imports and the advance of commodity prices through-out the sixteenth century, particularly from 1535 on, demonstrates beyond question that the ‘abundant mines of America’ were the principal cause of the Price Revolution in Spain”. Grice-Hutchinson (1952, p. 4) emphasizes that Spain's commercial cities felt the impact most sharply because of the demand for goods in the New World and influx of precious metals: “The rise in prices began in Seville, the home port of the treasure fleet, spreading thence to other parts of Spain and later to the rest of Europe”. While those conditions stoked the flames of currency-exchange speculation, they disfavored exporters and fostered uncertainty, two poisonous effects for merchants already lending and borrowing unprecedented quantities of money to finance trade in the New World. Because currency exchanges were seen as suspiciously close to the sin of usury (loaning money at interest to someone who needs it for immediate consumption purposes), the early merchant

requests and work of the Doctors converged in that area.²⁶ Changing business conditions—state monopolies, heavy taxes and an unstable currency—amplified demand for less-costly rules by which commercial activities might be ordered. To shift both legal and ecclesial rules in that direction, economic arguments would need to be made.

4.2. Analysis of supply

While the New World was explored and commercialized, the School of Salamanca mapped the emergent commercial practices from the perspective of natural law—that is, discerning how predictable patterns emerge as man’s powers of reason (a universal across human nature) interact in different contexts. In doing so, they produced a body of economic analysis, distinguishable in modern terms as articulations and applications of the subjective theory of value and quantity theory of money. I argue that those Catholic priest-professors were responding to two major incentives: the increasingly competitive religious marketplace and the increasingly endangered ecclesial wealth.

The single most disruptive fact for the sixteenth-century Catholic Church was that of the Protestant Reformation. For all their attention to the School, it is surprising that the canonical works (Grice-Hutchinson 1952; Schumpeter 1954; Roover 1955) make no explicit mention of the Reformation or Counter-Reformation.²⁷ The earliest members of the School (i.e., Vitoria, Azpilcueta, de Soto and Covarrubias) were direct players in the

²⁶ It is well-known that the merchants had no qualms about using credit arrangements to charge and receive interest payments as well. Church regulations did not hamper finance in any significant way; rather, it made some financial instruments (such as foreign currency exchange) relatively more attractive given their ability to conceal interest charges (de Roover 1951).

²⁷ In a later book, Grice-Hutchinson (1978, p. 120) does give an economic answer to the question of why Protestant scholars did not engage explicitly with late Scholastic economic thought (while clearly having read and drawn from their analysis): "we must remember that not only was [Pufendorf] a convinced Lutheran himself but that he also depended on the favor of Protestant princes".

Reformation, while the scholarship of the successor Doctors would have been published and dispersed precisely during the Counter-Reformation (1560-1648). The Doctors themselves display evidence of focusing their eyes on competition; not infrequently they sharpen their claims by refuting the positions of Protestant scholars.²⁸ In the process of establishing the first unified economic tradition, the Doctors of the Salamanca School deeply critiqued their collocutors' texts, provided their flock of merchants with a valuable product, and simultaneously lay strategic groundwork for their own property rights.

Charles V had just made the unprecedented decision to withdraw the traditional tax-exempt status of the clergy and cathedrals in 1517, during the School's early years (Espinosa 2006). Espinosa (2006, p. 13) further details how the vast wealth of the Church, typically managed by the local cathedral chapters, was turned into a "source of collateral for lenders" and increasingly became "a liquid asset, as their resources were channeled toward campaign expenses and servicing Charles's debt".²⁹ It is hardly a wonder that the School became interested in the moral, legal and economic dangers of taxation and seigniorage.³⁰ Furthermore, clergymen in the major port cities had recently

²⁸ The earliest Doctors focused their analysis on the legal relationships between groups in the New World: "mere infidelity did not deprive the Indians of their rights—the contrary doctrine was, in fact, a Protestant heresy" (Koskenniemi 2011, p. 8).

²⁹ For a taste of the magnitudes involved: "Charles confiscated 1,500 ducats from the bishop of Cuenca as well as an additional 7,000 ducats of revenue from the diocese. The bishop of Guadix gave a loan of 300 ducats, the bishop of Almeria another 300 ducats, the bishop of Mallorca 1,500 ducats, the bishop of Badajoz a sum of 1,000 ducats, and the bishop of Osma a forced loan of 2,000 ducats. Charles as well confiscated from Segovia 6,000 ducats, from the bishopric of Burgos 10,000 ducats, the bishopric of Salamanca an additional 8900 ducats, and from the Toledan archdiocese 7,000 ducats." (Espinosa 2006, p. 14) Not all prelates opposed those measures—in fact, many received new appointments in return for their financial support (Espinosa 2006, p. 8). It was not to be the first nor the last time that Doctors of the School would take up positions against their fellow clergymen by explicitly warning the Crown against wars, inflation, and general excess.

³⁰ The political thought of the School distinguished itself from contemporaries by attempting to disentangle the state from the church; "One of Suárez' major works—his 1613 *Defensio fidei*—was written, building

also become the preferred trustees and debt collectors in the Old World for traders taking frequent business trips to the New World (Pike 1972). At least three reasons can be found for the clergy's suitability as agents: the extensive network of the Church, its visibility and explicit moral code (for monitoring purposes), and the fact that a growing number of clergymen were coming from merchant backgrounds as their families advanced socially. The course of history had pushed the merchants closer to the clergy than ever before, and economic events had pushed them further into direct partnerships. Demand met supply.

4.3. Predictions

Economic incentives coordinated the interests of the merchants and the School, leading them to exchange. I now examine the five predictions from an economic analysis of a market for economic analysis in light of historical evidence.

1. The demand for economic analysis increases when the demand for economic arguments increases (and falls when demand falls).

The School of Salamanca produced the first body of modern economic analysis because the demand for economic analysis was stronger in sixteenth-century Spain than in previous eras, owing to greater demand for economic arguments. Two related reasons can be found for the demand-side argument: moral views shared in common revolved into economic interests shared in common (as both the Old and New Worlds fractured religiously) and the institutions of sixteenth-century Spain had evolved to incorporate commercial law, making it possible for economic arguments (as opposed to merely moral arguments) to loosen the constraints.

upon Bellarmine's efforts to refute the claims of James I about the divine right and absolute power of kings" (Alves and Moreira 2013, p. 103).

The most popular merchant handbook of its time, Mercado's *Suma de Tratos y Contratos*, lays out expectations for just contractual relationships that could apply to all trading partners the merchants might encounter—lowering the cost of trading across borders, cultures and creeds. He assures his reader:

In the drawing up of all contracts, sales, purchases, exchanges and loans, what is demanded of the Christian merchant is hardly more than what the Turk or the Arab ought to abide by. For justice and truth, which must be found in them, at least in matters of substance...emerge from and belong to the natural law, to which everyone of any condition and profession is subject.... (quoted by Vigo 1998, p. 175)

Those guidelines were not founded upon passages from Scripture (setting Catholic scholarship apart from Protestant); rather, they derived from natural law, described by Melé (1999, p. 179) as “the law of human reason”.³¹ Clarifying obligations also became important as merchants (or often their representatives) increasingly experimented with new contractual forms—maritime loans, *ricorsas*, insurance contracts, discounts, and so on—designed to ease the burden of doing business in the New World.³² The School's economic analysis of the new financial instruments established their harmony with reason and thus could be used to defend their legality.³³

Another clear connection between the economic principles uncovered by the School and concrete changes in commercial rules can be found in their “just price” theory. Roover (1955, p. 137) argues, “[t]here was nothing basically wrong with the scholastic theory on

³¹ Melé (1999), Rivas (1999), Alves and Moreira (2013) and Moreira and Alves (2013) provide thorough investigations into the business ethics approach taken by the Doctors.

³² Milgrom et al. (1990) show how the larger system of seasonal fairs, private judges, and the Law Merchant reduced the transaction costs of long-distance trade between individual merchants.

³³ For more details on this point, see de Roover (1951, p. 501): “It would be a grievous mistake in historical interpretation to assume that the theories of the Doctors did not affect economic policy or influence legislation”.

value and price. It rested on utility and scarcity, and Adam Smith did not improve upon it". He corrects a prevailing notion that the scholastic insistence on the "just price" rested upon concerns regarding social hierarchy, labor costs, or some fairness criterion (e.g., merchants may make only a certain percentage of profit—a position held by some Protestant scholars). Rather, as Hoover (1958) documents, the "just price" was identified as the competitive market price under unfettered demand and supply conditions. That analysis underpinned the School's understanding of marketplace competition and, consequently, monopolies. After giving the recognizable textbook definition of monopoly, Leonardus Lessius (1554-1623) explains four different ways that a monopoly might be established:

(1) Sellers conspire about the price to ensure that no one sells at a lower price, or they make sure that they alone sell a particular good. The latter can be brought about either through (2) a special privilege from a prince, or (3) through industry, that is, by buying up all goods and then holding them back until prices rise, or (4) through impeding other merchants from importing the goods from elsewhere. (Lessius [1605] 2007, p. 50)

Interestingly, Lessius argues that monopoly behavior is not contrary to justice so long as the price of the good does not exceed the "highest common price", understood as the highest price obtainable under normal market conditions. He goes into further detail on case 2, distinguishing between a just monopoly title, "notably the case when the prince observes that without the temporary benefit of a privilege no one would be prepared to import a particular kind of good in sufficiently large quantities because of the costs involved", and an unjust monopoly title. In the latter case, both the sellers and politicians must make reparations to "both other citizens who want to sell but are unrightfully impeded and to the buyers who could have received a better price" (Lessius [1605] 2007,

p. 52). Such clear distinctions had concrete ramifications since monopolies could now be “punishable *in foro externo*, that is, by the courts” (Roover 1951, p. 500). Those teachings also were enforced widely through the sacrament of confession (*in foro conscientiae*).³⁴

The production of economic analysis as the “facts” of a situation also provided a way for the Doctors to work around their theological constraints. That conclusion parallels an argument made by Allen (1995), in which he connects the degrees of doctrinal liberty allowed by a particular religious creed and the set of feasible church structures that can mitigate ecclesial opportunism. In other words, the School could argue from different facts (i.e., economic realities) and propose different means (i.e., fewer commercial restrictions), but they needed to arrive at the same end (i.e., the salvation of souls) by harmonizing their insights with Scripture and Church tradition. Economic analysis provided merchants and the School with solid justifications for shifting both country and canon law in the desired direction.

2. When the demand for a particular kind of economic arguments increases, more inputs will be allocated to the production of the corresponding particular kind of economic analysis.

The School of Salamanca did not publish a general economics textbook. Rather, they focused their labors on the few key aspects of the burgeoning global economy. The areas of study corresponded to the emerging pressures on merchants: monopoly (treated

³⁴ de Roover (1951) also cites numerous examples of medieval wills including restitution for usury and illegitimate gains.

above), taxation, and inflation. They also produced pioneering work in support of private property, profit-maximizing behavior, and commerce in general.

The School's adherence to the subjective theory of value informed their positions on many aspects of commercial life, including taxation.³⁵ In short, they saw taxes as inducing people to make economic choices that they would not otherwise make, bringing unintended consequences.³⁶ Pedro Fernandez Navarrete writes in 1619: "The origin of poverty is high taxes. In continual fear of tax collectors, [farmers] prefer to abandon their land, so they can avoid their vexations... the only agreeable country is one where no man is afraid of tax collectors" (quoted by Chafuen 1986, p. 66). The Doctors also argued that high taxes gave incentives to merchants to evade them, and thus the princes cause double harm to the republic by leading merchants to sin and not managing their financial affairs properly. Diego de Saavedra Fajardo (1584-1648) capture succinctly how the Doctors saw the economic sphere as a check on the political sphere: "Power is mad and has to be restrained by economic prudence. Without prudence, empires decline" (quoted by Chafuen 2003, p. 54). From their positions as Catholic moral authorities, which translated into a relatively high level of temporal authority in Catholic Spain, the Schoolmen taught that high taxes were damaging to the common good (the social end of Catholic social teaching).³⁷

³⁵ Diego de Covarrubias summarizes the theory in 1556: "'The value of an article', he says, 'does not depend on its essential nature but on the estimation of men, even if that estimation be foolish. Thus, in the Indies wheat is dearer than in Spain because men esteem it more highly, though the nature of the wheat is the same in both places'" (quoted by Grice-Hutchinson 1952, p. 48).

³⁶ The conclusion that taxes can change behavior violates the norm of "tax neutrality" found in many public finance textbooks.

³⁷ "The permanent principles of the Church's social doctrine constitute the very heart of Catholic social teaching. These are the principles of: the *dignity of the human person*, which has already been dealt with

The Schoolmen's grasp of the quantity theory of money led to their approval of exchange contracts (used to trade currencies) and praise of stable purchasing power throughout their writings. For example, one chapter heading of Mercado's *Table of All Matters*, which González ([1569] 2017, p. 8) explains was structured much like our FAQs so that merchants could find quick answers to their questions, runs: "Why diverse valuation is a sufficient reason to justify exchanges". In addition to recognizing more forms of interest and contracts as licit, the Doctors' explicit disapproval of the king's currency devaluation spread further their popularity amongst the merchants, though putting them at odds with the Crown itself. Their complicated relationship with the Crown is well-illustrated by the life of Juan de Mariana (1536–1624), pupil of St. Ignatius of Loyola and tutor of St. Robert Bellarmine, who authored celebrated works on the history of Spain and the education of a king. However, when he published a thorough treatise on money in his old age (*De monetae mutatione*) he found himself imprisoned for pointing out that inflation did not actually create wealth for the Crown (Calzada 2018). Mariana's ([1609] 2002, p. 12) own dangerous words:

[I]f a prince is not empowered to levy taxes on unwilling subjects and cannot set up monopolies for merchandise, he is not empowered to make fresh profit from debased money. These strategies aim at the same thing: cleaning out the pockets of the people and piling up money in the provincial treasury. Do not be taken in by the smoke and mirrors by which metal is given a greater value than it has by nature and in common opinion. Of course, this does not happen without common injury. When blood is let by whatever device or strategy, the body will certainly be debilitated and wasted. In the same way, a prince cannot profit without the suffering and groans of his subjects.³⁸

in the preceding chapter, and which is the foundation of all the other principles and content of the Church's social doctrine; *the common good; subsidiarity; and solidarity*" (italics in original, Pontifical Council for Justice and Peace 2004).

³⁸ Lares (1928) discusses taxation further in his excellent book, *The Political Economy of Juan de Mariana*.

The real irony is that his previous work had argued from natural law that the king derived his power from the people, and thus tyrannicide may even be lawful in some circumstances, but that contention did not provoke the political outcry that his writings on the ills of currency debasement would incite.³⁹

Finally, the School of Salamanca offered unprecedented support—even honor—to private property, profit, and commercial activity in general. The Early Church Fathers had been very concerned that the lure of ephemeral riches would divert souls away from investing their time in immortal goods (relationships with God and fellow human beings) and toward investing it in material gain.⁴⁰ All members of the School of Salamanca certainly acknowledged that danger—always constraining themselves by doctrine—but they argued for private property as the best option in the fallen world since the societal conditions brought on by communal property would be even worse (Mises 1951). Take Bañez, who wrote in 1594: “We know that the fields are not going to be efficiently tilled in common ownership and that there will not be peace in the republic, so we see that it is convenient to undertake the division of goods” (quoted by Chafuen 2003, p. 37). The general scholastic endorsement of private property was built upon pragmatic concerns for

³⁹ To give a sense of the magnitude of inflationary finance to which the Crown would resort, Velde and Weber ([1997] 2000, p. 6) report: “The stampings of 1636, 1641 and 1654 each provided 5m ducats on average. From 1621 to 1626, minting of pure copper coinage earned 2m ducats per year. By way of comparison, total expenditures in 1598 and 1621 (both war years) were 12.3m and 12.7m ducats respectively, of which 6 to 7m ducats for defense. In 1608, a peacetime year, expenditures were 10.8m D of which 4.2m for defense. The sums raised in seigniorage were therefore considerable.”

⁴⁰ Consider an excerpt from Cyprian’s homily in the second century: “The property of the wealthy holds them in chains ... which shackle their courage and choke their faith and hamper their judgement and throttle their souls. They think of themselves as owners, whereas it is they rather who are owned: enslaved as they are to their own property, they are not the masters of their money but its slaves.”

peace and proper stewardship of the earth's resources.⁴¹ Mercado ([1569] 2017, p. 36) goes further in his handbook, waxing poetic as he makes his argument for private property:

One does not love one thing more than when one has it as its own. If I love God, he is my God, creator and savior.... [T]he father loves the children who are his; if the wife loves the husband, because she has him as hers.... If one desires the common good, [it is] for my religion or for my order or for my country or for my republic. Love always inseparably brings the word "mine" and property is endearing and natural.

By drawing a parallel between material stewardship and the purpose of the moral life (love), Mercado has elevated private property as the arrangement that best accords with human dignity—crucially demonstrating that his analysis is a better fit for a core component of the Church's doctrine. The School of Salamanca saw profit as something morally indifferent—the spiritual value of which ultimately was determined by the intent of the merchant, rather than most clearly measurable outcomes.⁴² Their scholarly analysis bolstered their approval for merchants as they provided a great service to their communities. Mariana ([1609] 2002, p. 41) recognizes that "trade is the foundation for public and private wealth" and Mercado ([1569] 2017, p. 40) expresses in his signature colorful manner:

Traders also become perfectly enriched in body and soul, because, conversing with many people, being in different kingdoms, dealing with various nations, experiencing different customs, considering the different government and order of peoples, they become universal men...there have been very excellent merchants

⁴¹ Juan de Mariana even accuses his own order of Jesuits for extravagant living: "Certainly, it is natural for people to spend much more when they are supplied in common than when they have to obtain things on their own. The extent of our common expenses is unbelievable" (quoted by Chafuen 2003, p. 35).

⁴² San Bernardino of Sienna had taught: "If it is legal to lose, it must be legal to win" (quoted by Chafuen 2003, p. 113).

who, with their prudence and ability, often freed their country from serious evils in very dangerous times.

The Schoolmen even argued that profits from gambling and prostitution (though harmful choices) were legitimate.⁴³

3. Individuals who have relatively high opportunity costs of producing economic analysis will outsource to others with lower opportunity costs (i.e., comparative advantage) as the market expands.

In no way did the School of Salamanca have a monopoly over the means of production of economic analysis. Many other groups in sixteenth-century Spain—from lawyers, political authorities, to the merchants themselves—had the necessary connections, education and resources.⁴⁴ However, the School had a lower opportunity cost of producing economic than other groups for three reasons. First, they had access to exceptional information channels: frequent conversations with merchants in the confessional, stories from Jesuitical mission work, and connections with the business community through their families or commercial partnerships. Perhaps the only group that rivaled (even exceeded) the far-reaching travel experiences of merchants in the New World were the missionaries from the freshly formed Society of Jesus—at least nine members of the School of Salamanca listed by Rivas (1999) were Jesuits themselves.⁴⁵

⁴³ Aquinas makes a careful distinction—that just because an act is immoral doesn't mean that it should be illegal. Both Aquinas and the Doctors conclude that prostitution should be legal to avoid even greater harm, and they “do not sin in taking their salary.... [T]hey can even claim what was promised to them” (quoted by Chafuen 2003, p. 116).

⁴⁴ Merchants invested their new wealth into the educations of their children, providing a new source of funding for the universities. Records show that one of the wealthiest Sevillian merchants, Juan de la Barrera, established a fund to provide annual scholarships to the University of Salamanca for seven poor boys (Pike 1972, p. 117).

⁴⁵ Maryks (2010) documents how the (originally) non-discriminatory policies of the Jesuits allowed for a significant number *conversos*—Jews who were forced to convert to Catholicism by the Alhambra decree in 1492 (and other past laws)—to join the Society. It is hardly a stretch to believe that the financial expertise

Second, the Doctors enjoyed singular social status as well-respected public intellectuals at the most prestigious universities and as moral leaders within the Church. The organizational structures of their dual employers were conducive to repeated interactions, which fostered the development of a cohesive body of thought—a proper School—rather than dispersed and unpredictable teachings. Third, historical records divulge that the clergymen themselves could not resist the lure of sixteenth-century Spain’s dynamic trade environment. A certain Canon Alonso Fajardo de Villalobos, the Bishop of Esquilache, seems to have failed to consult a handbook like Mercado’s before launching his business enterprise. It was discovered that, from his residence, this bishop had been running a full retail store for merchants leaving for the New World. He was tried in court for engaging in the “totally unscrupulous” business practice of selling grain at higher than the established price (*tasa*), “neither saying mass nor attending church” and—a relic of the time—“living as a man without conscience on the verge of perdition” (Pike 1972, p. 71). Engaging in trade as a clergyman was not altogether uncommon, and Pike (1972, p. 72) adds: “Fortunately for the Sevillian church there were few clergymen like Villalobos. The majority of churchmen managed to keep their business and spiritual concerns separate without prejudicing one or the other and to profit from both”.

That prediction is demonstrated further by considering two groups that possessed similar advantages in the production of economic analysis, but nonetheless failed to produce anything similar to the economic thought of the School because they faced

of the formerly Jewish families had some effect on the well-rounded knowledge from which the Schoolmen approached business.

higher opportunity costs of production. The scholars at the University of Paris and the *arbitristas*, quasi-pundits who came after the School of Salamanca, provide such interesting historical counterfactuals.

In 1530, the merchants of Antwerp petitioned the University of Paris to argue their case for the validity of currency exchange and to seek its advice on other pressing commercial questions (Grice-Hutchinson 1952). The specific reply of the University of Paris is very brief, condemning the practice, but revealing little knowledge of the merchants' affairs. The University of Paris did not lack access to the scholastic method of inquiry—that is where the founder of the School, Francisco de Vitoria, had learned the relevant techniques. It also cannot be said that no demand for less-costly commercial rules arose amongst Antwerp's merchants, as their lengthy letter in which they set out their six-point case for exchange contracts reveals. Religious competition also recently had emerged for Catholic clergy in France from the Calvinists. However, economic incentives to analyze currency trading (and consider updating positions) were absent. The Assembly of the French Clergy met quinquennially in order to negotiate finances with the King; as a result, French clergy were immune from taxes and other financial impositions during the sixteenth and seventeenth centuries. Without the economic benefits and direct field experience of the School of Salamanca, most Doctors of Paris (save Vitoria) appeared to have little concern for the dealings of the merchants.⁴⁶

⁴⁶ Francisco de Vitoria was a primary correspondent of past and future merchants during his study at the University of Paris. His opinions can be distinguished from the others by the "severity of his doctrine".

Another case can be found in the *arbitristas*, whom Baeck (1988) describes satirically as “forerunners of what today could be called development economists”, a group of pamphleteers who aimed critiques at Crown policy as the Spanish empire continued toward decay in the seventeenth century. While the School espoused the quantity theory of money and subjective theory of value—and thus generally opposed the regulation of prices—the *arbitristas* adhered to what Baeck (1988, p. 394) calls “the first coherent socio-economic ideology for the upcoming modern state”. They complained to the King of the foreign tradesmen and bankers’ great wealth; individual *arbitristas* advocated for reforms ranging from public investment in infrastructure, more industrialization and less international trade, to land redistribution.⁴⁷ It may be redundant to say that those writers were not receiving any requests for moral and legal guidance from merchants.

4. Producers supply economic analysis up to the point where its marginal benefit equals its marginal cost.

From the merchants’ perspective, not all costly rules were worth changing. For example, the declaration that usury was a sin was not (and still is not) changed, however, financial innovations like exchange contracts enabled the merchants to build-in interest charges when necessary. The high marginal cost of going against that Church teaching and low marginal benefit from removing the restriction are revealed by the lack of urgency for updating ecclesial and state law.⁴⁸ Another example comes by comparing the

⁴⁷ They also called for educational reform: “Moncado advocated the use of the vernacular instead of Latin for teaching at universities. He furthermore regretted that the educational system did not analyse social and economic problems. According to him, education had to be relevant to reality and functionally oriented to the socio-economic and cultural development problems of the nation. As long ago as that!” (Baeck 1988, p. 399).

⁴⁸ de Roover (1955, p. 170) discusses the interplay between usury laws and merchant evasion, concluding that “in trying to constrain the market, the moralists were fighting a losing battle”.

particular kinds of analysis produced by the School and those produced by the traditional founder of economics, Adam Smith. Based on the findings of Anderson, Shughart and Tollison (1985), Tollison (1986) uses economics to explain why Smith—producer of the principle that the division of labor depends on the extent of the market—restricted free trade in his position as Commissioner of Customs in Scotland.⁴⁹ The historical reality of a debt-ridden monarchy that quickly was seizing merchant and ecclesial wealth provided sufficient incentives to introduce relatively untraditional economic arguments for private property ownership and profit-seeking, both of which received much attention from the School.

Furthermore, while the School was unified in their economic theories, the market for economic analysis was in fact marked by competition, driving the Doctors toward efficient production. Grice-Hutchinson (1952, p. 4) describes how the School's guidebooks were sold to merchants going to and from the seasonal fairs, where the bulk of international business dealings would have been conducted:

From about 1540 onwards there appeared a whole crop of handbooks, written mostly by learned friars, which paint a vivid picture of the business life of the times. Their authors vie with one another in offering the merchant the perfect guide for the salvation of his soul... These little books reflect, in a simplified form comprehensible to the layman, the more elaborate body of doctrine that was in process of evolution at the universities.

In the sixteenth century, only the Schoolmen possessed a low enough opportunity cost and could capture enough benefits to produce the kinds of economic analysis demanded

⁴⁹ An excellent conclusion of this exercise is given in Tollison (1986, p. 921): "To defend a person's behavior as being consistent with positive economic theory is to say very little indeed. Moral leadership requires to some degree that preachers practice what they preach".

by merchants.⁵⁰ Unsurprisingly, they produced it with an eye toward efficiency—focusing on those areas that would bear the greatest fruit for themselves and merchants while foregoing economic topics that bore little relation to present debates.

5. Similar kinds of economic analysis will be produced using similar methods of production. The School's "production process" consisted of two main components: the scholastic method and fieldwork for gathering empirical evidence. The scholastic method is founded upon this insight from the Schoolmen's favorite citation, Thomas Aquinas: the universal and essential component of human nature is the capacity to reason, thus people ought to live in accord with their reason (even if it is objectively mistaken).⁵¹ The Doctors therefore analyzed the choices of individuals as the driving power behind the economic phenomena of their age. French Hispanist Pierre Vilar (1969, p. 179) connects the dots:

[T]he work of the theologian charged with judging the legitimacy of a certain gain lies in searching, through subtle analysis, whether the obtaining of benefits through an exchange operation, a payment on a fair, a maritime loan, etc. be 'rational' or not. Thus, the confessor's manual becomes a book of economic analysis! (quoted by Camacho 2017, p. 3).

It may be said, then, that the scholastic method is something of a forbearer of rational choice theory.⁵²

⁵⁰ González (2017) reports: "We know that Mercado's work had an evident repercussion at the time, to the point that, in a very short span, two other, extended editions were published in Spain (Seville 1571 and Seville 1587) as well as an Italian translation (Brescia 1591)".

⁵¹ Finnis (1980, p. 36), who has certainly read more Aquinas than the present author, writes that for Thomas Aquinas "the way to discover what is morally right (virtue) and wrong (vice) is to ask not what is in accordance with human nature, but what is reasonable".

⁵² The mathematical historian Morris Kline (1987) has called attention to the influence of the Scholastics: "The last medieval teachers, the Scholastics in particular, provided not only the rational climate in which mathematics and modern science were born, but they also inspired in Renaissance thinkers the belief that nature was the creation of God, and that the paths of God could be understood. It was this fundamental

The second component of the production process, as Melé (1999) notes, was the extensive empirical research accomplished by the Schoolmen. It was such a central component of their method that reading Mercado's *Suma* can be like wading through a steady stream of numerical hypotheticals before reaching his point.⁵³ He frequently urges his fellow clergymen to pay greater attention to the dealings outside their doors by teasing their bookishness and even advises the merchants to choose a confessor who is "learned, wise and somewhat understood in business without being too scrupulous, that, indeed, the little learned, inexperienced and scruffy lawyer is not convenient for the merchant" (Mercado [1569] 2017, p. 51). The School of Salamanca utilized processes in the production of their economic analysis similar to those of modern producers—especially those aimed at serving the demands of special interest groups.

5. Conclusion

The Doctors of the School of Salamanca produced the first economic analysis in response to economic incentives. Their incentives were manifest in religious, economic and political spheres through benefits like merchant loyalty, direct payments for handbooks, and ecclesial property protection.⁵⁴ The demand for this economic analysis by Spanish merchants was derived from their demand for economic arguments in favor of less costly

article of faith what prevailed on and inspired scientists and mathematicians of the Renaissance" (quoted by Gómez Camacho et al. 2017, p. 31).

⁵³ "In the first chapter we said that monies are not of the same value in all places, that the *ducado* among us is worth eleven *reales*, in Rome thirteen, the real is worth thirty-four in Seville, and in Gran Canaria, thirty-eight. Now it is a question whether it is licit to change a hundred reales in Seville for a hundred in Gran Canary where they are not worth four hundred *maravedies*" (de Mercado [1569] 2017, pp. 135–136).

⁵⁴ Importantly, I do not intend to claim that the main motivation of the Doctors, merchants, or Spanish Crown, for that matter, was not seeking truth. What I believe my paper demonstrates is that the actions of the Doctors, merchants, and Crown also can be explained by their economic incentives.

commercial rules to govern their expanding trade opportunities. The flourishing of transatlantic trade had triggered burdensome policies by the Spanish Crown while also increasing the benefits of insurance, contracts, and business ethics norms that might govern trade with the New World. By producing economic analysis for the benefit of merchants, the School aligned itself with merchants' interests rather than those of the Crown. A similar pattern can be seen during the modern antitrust era, which began in the United States with the Sherman Act of 1890 and gave birth to the literature on law and economics. New economic challenges not only augment the demand for economic arguments, which begets a demand for economic analysis, but they also affect the relative prices of particular kinds of economic analysis so that its producers will shift their attention to new problems. An economic theory of economic analysis generates three other predictions beyond those connections, specifically: producers will be those with the comparative advantage; they will produce until the marginal cost equals the marginal benefit; and they will use similar production processes for similar kinds of economic analysis. I argue that those predictions held true for the School of Salamanca, and I suspect that they held true during the antitrust era and in the production of economic analysis today.⁵⁵

At least two conclusions follow from this inquiry. The first is the obvious one, that economic incentives create strange bedfellows in every age. The second conclusion is even simpler: the production of economics operates within a marketplace. It comes at a

⁵⁵ In the words of Tollison (1986, p. 911), "The economist is a rational, maximizing individual, subject to the predictions of economic science. In this sense there is no way that the economist cannot be influenced by the environment".

cost, can be bought at a price, and responds to changes in income, technology, and other market conditions. Its existence depends upon producers— but upon consumers as well.

CHAPTER 2: AUTOCRATIC FAMILY POLICY

1. Introduction

In many ways, families are like any other private organization. However, families present a unique problem from the autocratic point of view because they produce people, i.e., the next generation of laborers and citizens. Familial production is so fundamental to the productivity of a regime that an autocrat cannot simply shut them down or easily take over their function. Yet, he cannot allow them to produce freely, since families draw resources and loyalty away from the collective and may even shelter dissident views.⁵⁶ How the autocrat selects his family policy will depend on how willing he is to bear the short-run costs of familial production in return for its long-run benefits.

The life of Soviet feminist scholar Alexandra Kollontai illustrates this tension. She was greatly influential in the Soviet family policy debates and held several positions – including the Commissar of Social Welfare and People’s Commissar of Propaganda – within the Soviet apparatus. Kollontai’s early speeches contain arguments like the following:

[T]he family distracts the worker from more useful and productive labour. The members of the family do not need the family either, because the task of bringing up the children which was formerly theirs is passing more and more into the hands of the collective (1977, p. 258).

⁵⁶ I will use the male pronouns throughout this paper to refer to my theoretical autocrat, not only because the autocratic rulers in the Soviet Union were all men, but also because this seems to be the historical norm (much to women’s credit).

Yet, in 1929, she fell silent as Soviet family policy was being revised. It wasn't until 1948 that Kollontai spoke out one last time to congratulate the Party on its new programs which enabled each woman to "fulfill her natural duty – to be a mother, educator of her children and the mistress of her home" (1977, p. 351).⁵⁷ Such a "reversal of thought" was not unique amongst participants in the Soviet family policy debates; indeed, it was the milder alternative.⁵⁸

The case of Soviet family policy (1917-1844) provides solid testing grounds for the theory of autocratic family policy. It began in 1918 with unilateral divorce, followed by inheritance bans, the proclamation of the full legal equality for women, and legalized abortion (1921). Yet, come 1944, nearly all revolutionary-era policies had been revoked and replaced. This reversal spurred a substantial conversation in history, sociology, and law (Berman, 1946; Wolff, 1949; Coser, 1951; Sverdlov, 1956; Petersen, 1956; Quigley, 1979; Nakachi, 2006). A leading explanation for the policy shifts is the one promulgated by the Party itself: pragmatic allowances were made for the widespread destitution of women and children, which, in turn, was laid at the feet of the New Economic Policy (NEP) (Goldman, 1993). A second explanation focuses on parenting, positing a tradeoff between the cost-effectiveness of parents for raising children against the potential threat that

⁵⁷ "The failure to write sufficient quantities of sufficiently effusive prose could be seen as political protest on Kollontai's part, and Stalin undoubtedly saw it as such as was suspicious" (Holt, 1977, p. 298).

⁵⁸ Goldman (1993) lists some of the casualties: "Alexander Goikhbarg, the idealistic author of the 1918 Family Code, and Aron Sol'ts, an active participant in the VTsIK debates...were both committed to mental institutions. Many other participants in the debate over the Family Code, like Alexander Beloborodov, Aleksei Kiselev, and Pyotr Krasikov were murdered in prison between 1936 and 1939" (p. 340). Leading legal theorists of the 1920s, including Yevgeny Pashukanis and Nikolai Krylenko, were arrested and eventually shot.

children are influenced in ways that are undesirable from the perspective of the regime.⁵⁹ My approach incorporates both of these perspectives, namely, that the serious social change in the Soviet Union was consequential, and that parenting is both a threat and necessary to autocratic regimes. The broader theory of autocratic family policy – which emphasizes the tradeoff between the autocrat’s current and future consumption – allows me to explain both the initial set of Soviet policies and the timing of reversals.

My theory of autocratic family policy is strengthened by a similar pattern unfolding in other cases. China is the obvious example, since the Chinese Communist Party (CCP) imposed the One Child Policy in 1979, enforced it to varying degrees, and then abolished it altogether in 2015 (Zhang, 2017). Singapore is yet another example, as its “Stop-at-Two” policy from 1966 was replaced with “Have-Three-or-More (if you can afford it)” in 1987. As many developed countries have increasingly lifted the “marital veil” (Brinig, 2000), and as fertility rates decline, understanding family policy will only become more important in the future.⁶⁰

2. *A Theory of Autocratic Family Policy*

Since at least Tullock (1987), economists have tried to understand the behavior of autocrats. I follow Boettke (1990, 1993), Wintrobe (1990), Anderson and Boettke (1997),

⁵⁹ Geiger (1968) points out the shortcomings of the parenting theory in particular: “...it disregards the fact that the time of the inception of the new family policy corresponds quite closely with the point of maximum political disaffection among the population. Forced collectivization had just been completed, the living standard in the cities had dropped to a point much below that of 1928, and the purges and terror were about to reach a high peak. At such a time Stalin could hardly expect that Soviet parents were making special efforts to rear loyal young communists” (p. 101).

⁶⁰ For example, Juviler (1985) makes the case that “the underlying causes of such [familial] breakdown found in the modern urban life and economy of the USSR are similar to those causes apparently contributing to divorce and declining birthrates in the West” (p. 385).

Gregory et al. (2011), Gehlbach and Keefer (2011), and others in applying the autocratic framework to the Soviet Union. In particular, Boettke (1993) emphasizes a central fact about autocratic regimes: “The sole point of the system was to concentrate benefits on those in power and disperse the costs on the citizens... endogenous reform would violate the maxims of rational choice because it would require that members of the dominant interest group move in a Pareto inferior manner” (emphasis in original, p. 8). My theory begins from the assumption that to the extent autocratic family policy is in the interest of families, it also must also be in the interest of the autocrat. Gregory et al. (2011)

further justifies this approach:

If holocausts, ethnic cleansing, cultural revolutions, or Great Terrors did not repeat themselves, attempts to model them (such as in this paper) would be hollow. However, the fact that such tragedies do repeat themselves and appear to be specific to certain types of economic and political systems gives economists license to delve into these matters (p. 41).

If the Soviet Union was alone in experimenting with radical family policy shifts, then there would be little reason to spend time on a more general theory. But the patterns of autocratic family policy repeat themselves today.

Economists have also increasingly tried to understand familial relationships and family policy using economic tools (Becker and Murphy, 1988). Families produce many things – children, companionship, insurance, meals, care – which perhaps explains why they have often been modeled like firms (Becker, 1981). This paper ties these two literatures in economics – the study of autocrats and the study of families – together.⁶¹

⁶¹ I will be using “the family” and “families” interchangeably in this paper, cognizant of the fact that the family (similar to “the firm” and “firms”) can take many forms in society. I define the family as the most

2.1 A Simple Picture of Family Life

Families produce people. The production process of an additional person requires the sacrifice of labor and capital by other family members. Eventually the new person will grow up to contribute their labor, time, and talent to society, but for at least a few years, they are economically unproductive. Families organize themselves to bear the short-run costs of new people and to enjoy their long-run benefits.⁶²

People are produced privately. The vast majority of couples only have a baby after both members agree to the fertility plan (Doepke, 2019). Family members decide when an additional person will be produced, and therefore, how much labor, time, and talent is available to society. By this, it is clear that all state revenues depend on the productivity of families as well as firms. If public policy were neutral toward familial production, the plans of families would only be constrained by the budget constraints that they face.

2.2 How an Autocrat Views the Family

There are a few ways that familial production, left to families, conflicts with an autocrat's maximization of the present value of his lifetime consumption. First, families are inherently dangerous because they compete for loyalty and can easily foster dissent.

cooperative organization in society, as well as the only one that produces people who then populate the other organizations.

⁶² For example, Soviet scholar E.O. Kabo argued that the working-class family is “the most profitable and most efficient organization of workers’ consumption and the upbringing of a new generation” (Goldman, 1993). She pointed out that the lines of exploitation were not as clear as Marxist thought made it out to be – in fact, it was just as likely that the wife was exploiting her wage-earning husband, since she redistributed the fruits of his labor for familial consumption.

Second, if consumption is assumed to derive from the productivity of the regime, the short-run loss of market labor that comes with spending time to raise a child will reduce the autocrat's present consumption. Third, familial production will, however, raise the consumption of the autocrat in the long run. The deciding factor is how much present consumption an autocrat is willing to forego for future consumption.

Most immediately, familial production increases the risk that an autocrat might lose his power. While all kinds of private organizations are eliminated or monopolized by autocracies for this reason, families are even worse than firms from the autocratic perspective. While many organizations claim resources for private ends, families naturally lay claim to the deep loyalty of their members.⁶³ The simple functioning of family life is an inherent threat to an autocrat because it absorbs the supply of loyalty from his citizens that he wants to enjoy (Wintrobe 1990).

Moreover, familial production draws labor away from market work, reducing the productivity of an economy in the short run. The family is structured to weather this temporary reduction in income (e.g., when one parent leaves formal employment to raise the child) with support from the other members. However, an autocrat enjoys no such support – for the time being, his tax revenues are reduced. Eventually the child will grow up and contribute to the productivity of the regime, but the autocrat will discount that expected benefit according to his time preference and perceived risk. This point is also

⁶³ Evidence of this can be seen in the records of KGB interrogations. The Wilson Center has a Digital Archive of some primary source documents: <https://digitalarchive.wilsoncenter.org/collection/45/intelligence-operations-in-the-cold-war>.

central to Olson (1993), where he shows that an insecure autocrat will confiscate assets whose tax yield over his time horizon is less than their value. One of those assets is the labor of adults who might otherwise work and spend time in the home. If “uneasy lies the head that wears a crown,” the family policy which maximizes the autocrat’s present value of his lifetime consumption is one that can shift resources to the present. This is accomplished by discouraging familial production.

Finally, familial production results in additional people who can increase the long-run productivity of the autocratic regime. This is significant since population growth occurs not only as a replication process (i.e., more hands and more sets of 24-hours), but a diversification process as well (i.e., more and different ideas and talents).⁶⁴ This fact shapes autocratic behavior if the autocrat expects to be in power for long enough to reap the benefits of familial production. If this is the case, selecting family policy that encourages familial production will maximize the present value of his lifetime consumption.

2.3 Predictions for Autocratic Family Policy

This theory leads to some predictions about autocratic family policy in the real world:

1. An autocratic regime that controls private organizations will control families as well.
2. The more an autocrat values short-run consumption, the less familial production will be tolerated in his family policy.
3. The more an autocrat values long-run consumption, the more familial production will be tolerated in his family policy.

⁶⁴ For example, research has shown that a younger labor force yields greater entrepreneurship and dynamism in the market overall Karahan et al. (2019). As Simon (1996) points out, the extent to which these capacities are realized depends on the economic and political institutions that constrain and shape human behavior.

As has been shown, the time horizon of an autocrat is the key to his choice of family policy. An autocrat that discounts future consumption greatly because his power is insecure will be focused on the short-run productivity of the regime and consequently discourage familial production. This will have the long-run consequence of lower productivity, however. An autocrat that foresees being in power for longer will maximize the present value of lifetime consumption by encouraging more familial production at the margin.

3. Soviet Family Policy

On the heels of the 1917 Russian Revolution, the Bolsheviks (under the guidance of Alexander Goikhbarg) issued a series of decrees that immediately banned religious marriages and permitted “no-grounds” divorce. This was soon followed by the abolition of the legal concept of legitimacy, a ban on inheritance, and a statement of full legal equality of men and women. In 1921, the Soviet Union would become the first country in the world to legalize abortion. However, less than a generation later, these policies were reversed and “pro-family” propaganda began to engulf the Russian people. Goikhbarg himself was shut in a mental institution, and mothers with many children were held up as national heroines.

How were these rapid shifts in family policy justified by the Soviet regime? The first codes (1917-1930s) were defended by their coherence with Marxist conceptions of the family. The second set of policies (1930s-1944) were defended with reference to the de facto realities the regime had to grapple with: the economic effects of the New

Economic Policy (NEP) and the cultural “backwardness” of rural villages. Put simply, the changes happened because the Party purposefully chose for them to happen.

To understand the overarching ideological constraints of the Party, it is necessary to visit its roots in communist thought. For Marx and Engels, the family was an economic unit masquerading as a bastion of bourgeois virtue. They likened the relationship between husband and wife to that of the bourgeois and proletariat, or an unpaid prostitute and her exploiter, and despised its connections to religion and tradition. The key to liberating family members would be to remove “the dependence, rooted in private property, of woman on the man and of the children on the parents” (Engels, 1847). Once private property was abolished, other aspects of bourgeois family life – specialized work, shared living spaces, inequality from inheritance, and the rearing of children – could be taken over by the community. Marxist thought served as an important focal point for the Party’s debates over family policy (Geiger, 1968; Boettke, 1990). While early Soviet family policy was undeniably an experimentation with Marxist ideas, it still does not explain the way in which these ideas were embraced and then suddenly put away.

3.1 Early Soviet Family Policy (1917-1926)

Before the Russian Revolution, the representative Russian family was the *dvor*, a multigenerational household with an average of 6.3 members (Frierson, 1987, p. 44). The first wave of Soviet policy targeted two distinctive features of the *dvor*: its multigenerational structure and its support – the Russian Orthodox Church – which had governed marriage and family disputes for hundreds of years. In particular, the ban on inheritance and communal property destabilized the *dvor*, and the early Soviet decree

allowing unilateral divorce was a complete shift from the Russian Orthodox rules on divorce (that had been even stricter than the Catholic Church of the West). The architects of the new Soviet family policy saw this as a crucial step: “The complete break of the state power with canonical, religious, ecclesiastical views on marriage makes it possible to free the masses in this respect from the oppression of the priesthood” (“Marital, Family Guardianship Law,” 1920).

The Family Code of 1918 instituted legal equality between men and women, and women’s participation in the formal workforce began to increase substantially. Beyond the legalization of abortion in 1921 (which remains Russia’s primary form of birth control today), the category of “illegitimate children” was eliminated, and child support was redefined to where a woman unsure about the paternity of her child could insist that all possible partners make her payments as a “commune of fathers.” Expansions in childcare and communal kitchens also marked Party efforts to provide public substitutes for household production. As the Commissar of Education, Anatoly Lunacharsky, wrote in the late 1920s:

Our problem now is to do away with the household and to free women from the care of children. It would be idiotic to separate children from their parents by force. But when, in our communal houses, we have well-organized quarters for children...there is no doubt the parents will, of their own free will, send their children to those quarters, where they will be supervised by trained pedagogical and medical personnel (Shipler, 1983, p. 89).

It would not be long, however, until Soviet communal kitchens became infamous for forcing unwilling strangers to cook, eat, and share pots and pans in claustrophobic quarters.⁶⁵

3.2 Demographic and Social Trends (1920s – 1930s)

By 1922, there was a new social group on the scene: the *besprizorniki*, or homeless orphans. This group of some 7.5 million starving children roamed the countryside in search of food and a family (Goldman, 1993, p. 59). By this time, women also increasingly found themselves in disastrous financial condition, bearing the burden of providing for children alone since their “commune of fathers” had disappeared or could not themselves provide support. The rapidly growing industry of prostitution “made a mockery of the idea that women were free, independent individuals who could enter a union on the basis of personal choice” (Goldman, 1993, p. 122). The Party responded by introducing legislation in 1926 that held only one man responsible for alimony payments and increased the number of communal kitchens.

As the years of civil war, famines, purges, and rapid industrialization progressed, the Soviet Union underwent two demographic shocks: declining birthrates and an unbalanced sex ratio. These trends, in addition to Stalin’s mass terror and foreign conquest, brought into focus the benefits that families could provide to the Soviet regime. The conditions also were such that households were increasingly smaller and headed by a single woman, instead of generations of cooperating couples as the *dvor* had been.

⁶⁵ See, for example, “How Soviet Kitchens Became Hotbeds of Dissent and Culture” (<https://www.npr.org/sections/thesalt/2014/05/27/314961287/how-soviet-kitchens-became-hotbeds-of-dissent-and-culture>).

Since official Soviet censuses (1920, 1926, 1937) are statistically untrustworthy, demographers have only recently reconstructed the population trends from this period. From 1895 to the 21st century, 58% of Russia's potential population growth was lost due to socio political disturbances, constituting 113 million "lost" people, or over 75% of the present-day Russian population Ediev (2001). Results are displayed in Figure 2.

[FIGURE 2 HERE]

The male-female ratio had also become drastically skewed through the decades of purges, wars, famines, and other catastrophes. The terror and foreign campaigns of Stalin had brought an unprecedented degree of social dysfunction. Gregory (2009) concludes that during the 1930-1933 deportations, "the unit of repression was not the individual but the household" (emphasis added, p. 124). Sparse demographic data confirms that the unrest had a disproportionate effect on men, and the ratio of all males to all females declined from parity at the turn of the century to a "low point of 74.3 in 1946" (Geiger, 1968, p. 175). The male-female ratio of those at reproductive age was reduced to 19:100 in some rural areas (Nakachi, 2006, p. 40). These demographic shifts were so significant that:

The 1959 census shows twenty million more women than men in the Soviet Union and in the age group thirty-two and older almost twice as many women as men...[a stereotype] sees the Soviet Union as a land of free love, though in reality it is much more a land of broken families. These two realities indicate the significant fact that a very great proportion of Soviet families are headed by women (Geiger, 1968, p. 120).

3.3 Late Soviet Family Policy

The first abrupt change to the Party's position on family policy came with the Code of 1936. Though not admitted in its external communication, the Soviet demographic

challenges were scrupulously discussed within the Party's internal communications (Nakachi, 2006). The main concern was that slowing population growth would cause the labor force to dwindle and productivity to suffer even more. Divorce was restricted by fines, abortion was curtailed, and state funds were increasingly allocated toward childbearing women. The "pro-family" posture of the regime was solidified with the 1944 Code, which extended all of these benefits. The Soviet Union began to publicly recognize its "Heroine Mothers," women who had given birth to large numbers of children. These mothers would benefit from significant and increasing monthly allowances (by number of children) and different degrees of honorary titles. Additionally, increased investments were made toward building facilities – homes, hospitals, and the like – for single mothers. Until the fall of the Soviet Union, its family policy from this point remained relatively stable.

Policy changes are not costless for an autocrat. Controlling the Russian family required whole new departments, training, enforcement, and the silencing of dissenters. As one peasant put it: "The village demands standard laws that are stable. The village demands that wives and brides register. We do not want a situation where today they are tied to one and tomorrow to another, and the court recognizes all this as marriage" (Goldman, 1993, p. 224-5). Table 1 presents a stylized timeline of Soviet family policy.

[TABLE 1 HERE]

For all its costs, the tumultuous changes to Soviet family policy must have seemed worth it to the Party.

4. Testing the Theory with Soviet Family Policy

For a regime as thoroughly planned as the Soviet Union, it would be inconsistent to assume its succession of family policies had little to do with the ends of the Party. Bundles of family policies, purposefully chosen at particular times, shaped Russian families in a way that maximized autocratic consumption. The direction of policy incentives for families depended on how willing the Party was to sacrifice the short-run for the long-run. The theory of autocratic family policy featured several predictions, each of which I now address in the Soviet context.

4.1 Prediction 1

“An autocratic regime that controls private organizations will control families as well”

For family policy to be effective, the Soviet regime first needed to eliminate competition from the two traditional authorities over Russian family life: 1) the Russian Orthodox Church, 2) and extended family members (especially the patriarch). The first series of decrees – the 1917 Decree and 1918 Code on Marriage, the Family, and Guardianship – did just that. The next important step was to replace traditional patterns of familial production with familial production plans that aligned with Party interests.

In December of 1917, the Bolsheviks promulgated their first major decree which altered marital contracts in two significant ways: 1) civil marital contracts must replace religious marriage arrangements, and 2) either spouse could request a divorce under the new civil rules. The new code was explicitly intended to erase, “centuries of patriarchal and ecclesiastical power and established a new doctrine based on individual rights and

gender equality” (Goldman, 1993, p. 49). Third parties, such as the local parish clergy or family patriarch, had long facilitated familial production by acting as specialized enforcers of marital contracts.⁶⁶ By introducing a contract that allowed for unilateral divorce, the Soviet regime differentiated its product, introduced more instability to familial ties, and began to centralize family planning. The 1918 Code on Marriage, the Family, and Guardianship also has features that disrupt intergenerational exchange within the family: the ban on inheritance and the ban on adoption. As the 1918 Code states: “Children have no right to the property of their parents, nor parents to the property of their children” (Section 160). Children were to increasingly rely on the state for sustenance and education, in return for their lifelong loyalty.

The Party monopoly over family life extended to the social life of family members as well. Soviet youth programs, like the Young Pioneers and Komsomol, functioned somewhat as regulated marriage markets, replacing the traditional matchmaking of older generations. The Party organized large communist youth and adult groups and instituted whole schedules of new rituals to replace those from before. One particularly fitting example is the marriage Soviet ceremony:

The bride and groom sit on a red-draped platform, attended by fellow union members and representatives of the women’s organization...the pair pledge themselves to work mutually to raise the production of the factory (Petersen, 1956, p. 31).

⁶⁶ In addition to very low rates of annulment, records show that the Russian Orthodox Synod rejected around 70% of all divorce requests (Freeze, 1990, p. 738). The primary sympathy toward divorce requests was revealed in cases where spouses had confessional differences, evidence that the clergy realized their small enforcement power outside the Russian Orthodox community.

Control over the marital contract was essential for the Party, since only then could it then leverage family policy to weaken or strengthen familial production in accord with its own objectives, without distorting incentives from other third parties.

4.2 Prediction 2

“The more an autocrat values short-run consumption, the less familial production will be tolerated in family policy.”

In addition to ensuring a monopoly over family life, early Soviet family policy was also designed to reduce familial production. The immediate effect of a reduction in familial production was that more labor would be available outside the home, for the purposes of the autocrat. This benefited the Soviet Communist Party, controlled by Lenin (from 1917 to 1924) and then by Stalin (from 1929 to 1953), since their present consumption was boosted by transferring resources and loyalty away from families to the state. Both Lenin and Stalin toiled for years to consolidate their power – a fact brutally evident through episodes like Stalin’s Great Terror (Gregory et al., 2011) – and were happy to trade uncertain future gains from familial production for certain present consumption under these conditions. This also helps explain why while traditional family life was disparaged, promiscuity was too – young men and women were expected to spend their newfound time and freedom at work for the Party. I estimate the reduction in familial production in three ways: 1) the divorce rate (a proxy for the spousal cooperation), 2) average household size (a proxy for intergenerational cooperation), and 3) qualitative data on familial relationships from that era. In the words of Stalin: “A true Bolshevik

shouldn't and couldn't have a family, because he should give himself wholly to the Party" (Montefiore, 2003, p. 69).

In addition to banning religious marriage, inheritance, and adoption, the 1918 Code also legalized abortion, recognized the full equality to women, and abolished the legal notion of "illegitimacy" which required all alleged fathers to share child support payments. These policies effectively increased the utility available outside of their families for both men and women. In the terms of family economics, marriage became a bargaining game with the threat point of divorce (Manser and Brown, 1980), and spouses could now compare their marital bargaining surplus with a more favorable situation outside of marriage, reducing the attractiveness of marital unions. The consequences of extra-marital sexual relationships were also reduced by the legal allowances for abortion and out-of-wedlock births. This predictably increased the quantity consumed of such relationships, to the point where it is common to find jokes about the noticeable decline in family life in this period.⁶⁷ Less than a decade later, the Family Code of 1926 also contained measures to reduce familial production, notably by removing the civil requirement to register marriage or divorce and by increasing the number of communal apartments and kitchens. The Soviet investment in communal living spaces competed directly with familial production, lowering the demand for family relationships at the margin. What effects did these early Soviet family policies have on families? First, the

⁶⁷ As Alexandra Kollontai referenced in one of her many speeches: "According to statistics given by comrade Kurskii at the VTsIK session, out of seventy-eight cases only three are alimony orders concerning the welfare of children. This is evidence that the women themselves do not believe that the fathers of their children can be found. (Laughter.)" An online archive of her writings and speeches can be found here: <https://www.marxists.org/archive/kollonta/index.htm>.

divorce rate provides a rough proxy for the reduction in cooperation and loyalty between the husband and wife. Spousal cooperation is important because it is the foundation of familial production, i.e., the production of new people. Table 2 gives rate of divorce, along with its changing “price” according to various policy restrictions.

[TABLE 2 HERE]

This is also indicative of curbing the threat of interest group formation which is latent in the family, since a husband and wife may reinforce each other’s dissident views and work together to gain support from the broader community. The Party especially feared the influence that women might wield over the other family members, as women tended to be more sympathetic to religion and would be insulated from propaganda if they remained within their home. Lenin voiced this fear: “The backwardness of women, their lack of understanding for the revolutionary ideals of the man, decrease his joy and determination in fighting. They are like little worms which, unseen, slowly but surely rot and corrode” (Shipler, 1983, p. 89). In many ways, early Soviet family policy can be read as an effort to make the housewife – the manager of familial production – irrelevant. One economist zealously declared that the second Five Year Plan would “achieve 100% socialization of the basic aspects of daily life” (Goldman, 1993, p. 314).

Another proxy for the growth or reduction of familial production in a society is the average size of a household. Prior to the Revolution, several generations lived under the same roof, so that the independence of a son was a major life event – the *razdel* –

which included a series of meetings and rituals (Frierson, 1987).⁶⁸ By 1927, there were 2.46 dependents per provider, and in 1935, there were 1.59 (Goldman, 1993, p. 313). Although household figures are sparse for early Soviet years, the 1959 census adds one more dimension to these numbers: village households had a mean size of 3.9, and urban families averaged 3.5 members (Geiger, 1968, p. 174). Correspondingly, there were no significant differences in family size across the socioeconomic groups of farmers, urban workers, and those in white collar jobs. Pointing to the fact that families had shrunk significantly from their pre-Revolution levels bolsters the claim that Soviet family policy was not aimed at one subset of the population but rather at families qua families. Accounts of parent-child relationships from this time portray them as strained at best.⁶⁹

The Party also introduced many public projects at this time that, if not eliminating all familial production, at least moved it outside of the home where it could be better monitored. Communal kitchens proliferated in the rapidly growing urban centers, and by 1921, “[Moscow] boasted over 2,000 food stations serving 956,000 people, or 93% of the population” (Goldman, 1993, p. 128 9). Women were urged not to rely on their husbands as the “breadwinner” but rather to “accustom herself to seek and find support in the collective and in society, and not from the individual man” (Kollontai, 1977, p. 250). In

⁶⁸ Interestingly, the habit of family members to share a home can also be seen as a way to lower the cost of monitoring and ensuring that other family members are upholding their side of familial production (Allen, 1992; Allen and Brinig, 1998).

⁶⁹ Elena Bonner’s younger brother is said to have remarked upon the arrest of their father: ‘Look at what those enemies of the people are like, some of them even pretend to be fathers’ ” (Figes, 2007, p. 137). Figes (2007) features extensive documentation of other similar occasions.

its early years, the Party maximized consumption by transferring loyalty and resources away from family purposes and toward the regime.

4.3 Prediction 3

“The more an autocrat values long-run consumption, the more familial production will be tolerated in family policy”

By the late 1930s, the Soviet Union was a changed regime. Years of war, famine, terror, and industrialization had reduced fertility rates substantially (as shown in Table 3).

Policing and monitoring technologies had developed to the point where the Party was no longer as insecure about its grip on power. Stalin had been in power for over a decade and would remain in control for two more.

[TABLE 3 HERE]

Party members, notably the future autocrat Khrushchev, began to show concern about the growth of the Soviet labor force and its future productivity. In response, a second era of Soviet family policy (1936-1944) was introduced that quickly shifted away from discouraging familial production to actively encouraging it. Importantly, this was done in a way that minimized the risk of familial production, such that only the small subset of the population, Stalin’s “class of single mothers” (Nakachi, 2006), were encouraged to bear and rear children alone. This ensured that male or other more highly-skilled workers would not have to reduce their supply of labor to the regime.

Stable family units became more valuable as the monitoring apparatus of the Party – the Soviet secret police (OGPU and later the NKVD) – developed. A growing literature investigates the measures used by the Soviet Union to identify and control its

population. Passport and residency laws introduced in the early 1930s became the main way that the Party “defined identities and attempted to act upon the Soviet population” (Shearer, 2009, p. 844). Shearer (2009) overviews the process:

A passport fixed an individual occupationally, ethnically, and socially through categories written into the passport document... If a person left a locale, he or she was required to “unregister” the current residence and to indicate the new address. Upon arrival at the new address, the passport holder was again required to register his or her passport and new residence at the new location (p. 845).

The timing of these passport campaigns is telling. By the end of 1934, 27 million passports had been issued, making up 20 percent of the adult population (only counting the Russian republic). By the Family Code of 1944, 50 million citizens (of a total 162 million) were passport holders. Moreover, the Soviet secret police relied heavily upon civilian monitoring as a tool to identify which individuals needed to be deported or eliminated. The failure to denounce treason or counterrevolutionary violations was a criminal offense in Soviet law. Even when family members were cooperating together and loyal, their correspondence and connections could still be utilized. Weiner and Rahi-Tamm (2012) records how this was done:

Between 15 January and 5 May 1941, some 3,551 letters from servicemen to their relatives and acquaintances were confiscated and used in investigations of politically suspicious personnel... Based on this information, the men of the 29th Corps were catalogued by “degrees of contamination” (p. 21).

Family members are valuable informers because they have access to the activities, beliefs, and whereabouts of one another. Importantly, Petersen (1956) writes that “[i]n many cases, the families of persons arrested in the great purges of the 1930’s perished with the ‘criminals,’ presumably because it was feared that family resentment would

generate new disloyalty to the regime” (p. 32). Stalin notoriously leveraged spousal denunciation as a loyalty test for top Party officials.

The big shift came with the Code of 1936. After decades of protest from the villages and legal mayhem as mothers fought for their alimony, divorce became heavily restricted, childbearing was encouraged, and the Party explicitly devoted itself to “strengthening” the family. Just as the first wave of family policies was justified by its liberation of women from their prisons, the Party now liberated women from their destitution by taking over an increasingly protective, fatherly role. It is significant that propaganda at that time was “even more notable for being anti-men than for being anti-revolutionary” (Fitzpatrick, 1999, p. 143). Although more secure, the Party was taking no chances with accidentally encouraging familial loyalty instead of sheer population growth.

The 1944 Family Code, Stalin’s final change to Soviet family policy, fortified barriers to divorce, expanded government support for pregnant women, and honored mothers with titles like “Mother Heroine” which carried substantial monthly payments. Cloaked in language that broadcast its support of families and women especially, Nakachi (2006) argues that the different language in the externally-circulated draft of the Code (*ukaz*) and internally-circulated note (*spravka*) reveals its true purpose. It was intended to maximize the reproduction of the population. Since a larger labor force increases the long-run productivity of the regime, it is hardly a surprise that the efforts toward higher fertility

were spearheaded by Khrushchev – the future autocrat himself. Nakachi (2006) illustrates that the “key step” of the Code was to provide state aid to single mothers:

Women would not have to be afraid of getting pregnant, and male partners would not have to be afraid of impregnating their sexual partners. Thus, the new project was designed to encourage both men and women to have nonconjugal sexual relationships that would result in procreation (p. 54).

The main function of shared housing for single mothers was to monitor and prohibit abortion, infanticide, and/or abandonment, which was why the medical control commission, “rather than maternal request, would determine who should stay in these facilities and for how long” (Nakachi, 2006, p. 51). Table 4 summarizes the fertility rewards introduced by the 1944 Code.

[TABLE 4 HERE]

Nakachi also calls attention to the fact that expansive aid to single mothers would need to be tempered by high barriers to divorce, lest the system be over-drawn.

The creation of the class of Soviet single mothers allowed the Party to shift the costs of child-rearing onto a subset of the population with a relatively lower cost of foregone productivity. In other words, if the autocrat had to rely on familial production to some extent, it was better for the Party that homework was not accomplished by their most highly-productive workers. Geiger (1968) illustrates how the policy incentives shaped the relationships of married couples along similar lines:

Though the new party line and legislation kept many estranged spouses from divorcing, it did not solve the basic problem. The wives of busy, politically co-opted husbands... becomes as wifely and motherly as possible, relinquishing any substantial direct involvement in the outer society, leaves such activities to her

husband, makes the best of her traditional sex role...and does not hold an outside job (p. 149).

Any family activity beyond those maximizing consumption for the autocrat would have been out of line with the interests of the Party and therefore discouraged.

The sole policy that remained unchanged in this period was the ban on religious marriage. Effectively, the Party had secured family life only in the formal sense with minimal cooperation and loyalty, such that in marriage, “only the common residence of a man and a woman remains, without love, without respect, without common interests and regard for each other” (Geiger, 1968, p. 260). Soviet policy would remain this way for many years, until abortion and divorce were legalized again in the 1960s.

5. Conclusion

Families have a complicated relationship with governments, especially when they provide many valuable goods and services to individuals (Breton, 1989). As a private organization, the family draws resources and loyalty away from public use. However, it also invests heavily in human capital and population growth which increase the productivity of society overall. Reflecting upon the case of an autocratic regime simplifies the relationship between families and the state. Familial production reduces the current consumption of an autocrat by fostering competing claims to resources and loyalty. Familial production increases the future consumption of the autocrat increasing the future productivity of the labor force. The determining factor for whether an autocrat selects family policy that encourages or discourages familial production is the length of his time horizon.

I use this theory to understand Soviet family policy (1917-1944), arguing that: 1) early Soviet family policy was designed to reduce familial production at a time when it was largely threatening to the stability of autocratic power, and 2) the later Soviet family policy was designed to increase familial production once the Party was more secure in its power, and only insofar as it could increase the birthrates and facilitate identification and monitoring of citizens. I argue that Soviet family policy was consistent in its aim, adjusting to different conditions as it centralized control over Russian family life.

Family policy is used as a tool for political ends in governments all over the world today.⁷⁰ As Hall (2014) points out, the family is also an important moderating force for radical political ideas – from Marx and Engels to Ayn Rand. Moreover, in developed countries today, the “representative family” or household is undergoing serious change (Doepke and Tertilt, 2016). To build theories and policy that comport with reality, it will become increasingly important to understand the relationship between states and families. Ignoring the important function of families in society will impair any efforts to improve social outcomes. To conclude, I echo Geiger (1968)’s reflection on the legacy of the Soviet family: “In the long view of history this special mission – to afford to the individual some privacy and protection against totalitarian encroachment – may prove to have been the Soviet family’s most important function” (p. 331).

⁷⁰ For instance, Russia is still trying to increase its labor force via family policy: “In 2006, then President Vladimir Putin unveiled a program that promised up to \$10,000 in credits and subsidies for mothers who had a second or third child” (Eberstadt, 2011).

CHAPTER 3: STATE AND CHURCH WELFARE

1. *Introduction*

Conventional wisdom and economic theory suggest that the provision of welfare services by the state will crowd out, or at least compete with, church welfare efforts. This story can explain the patterns of welfare provision in most places of the United States and around the globe. An interesting exception to this is found in Utah. Welfare services in Utah are provided by both the Department of Workforce Services and the Church of Jesus Christ of Latter-Day Saints (hereafter the LDS Church), and these two systems function more as complements than substitutes with regard to the populations they serve, the services they provide, and the manner in which they provide them. What explains this exception? We argue that the key to this different relationship is that the median voter in Utah pays both taxes to the state and tithes (of some form) to the LDS Church. Because of this, she will support state welfare policies that complement the already well-functioning LDS welfare system. More generally, when the median voter is a tax-*and*-tithe payer, she doesn't vote to increase general state-run welfare in some amorphous, ill-defined way—rather, marginal increases in state-run welfare must complement her understanding of “legitimate” welfare.⁷¹ Furthermore, the state legislature overrepresents the LDS

⁷¹ We thank Jordan Lofthouse for this clarifying formulation.

community in Utah, ensuring that legislators build a state welfare system that responds to the preferences of the tax-and-tithe-paying median voter. This situation of secular-religious welfare complementarity is unique to Utah because it is one of the few states (if not the only one) with a religious majority, and a religious majority with a characteristic approach to welfare.

LDS welfare provision has already been a notable case across the social sciences, as is Utah itself for being home to relatively high rates of economic mobility (Barton, 1977; Chetty et al. 2014; Goodman and Herzberg 2019). An exemplar of the welfare approach taken by Utah’s Department of Workforce Services is their Intergenerational Poverty Initiative (hereafter, the Initiative) begun in 2012.⁷² Its five and ten-year plans include supporting parents as the “first teachers,” promoting a culture that supports “consistent school attendance,” and most importantly, recognizing “family as the center of economic stability” (Intergenerational Welfare Reform Commission, 2015).⁷³ In 2019, voters in Utah passed the Medicaid expansion, which was ratified by lawmakers with some notable customizations, such as “self-sufficiency requirements” and expanded support for pregnant mothers. Both the Initiative and Medicaid expansion are coherent with LDS values regarding welfare: the role of work, self-reliance, healthcare, and provision for children. This paper analyzes the economic forces behind the division of labor and cooperation of

⁷² Intergenerational poverty is defined as two or more generations relying upon public assistance for at least 12 months in their childhood and in adulthood (Intergenerational Welfare Reform Commission).

⁷³ While not explicitly partnering with the LDS Church for this Initiative, its focus on family bears great resemblance to the values of the LDS Church and its Intergenerational Poverty Advisory Committee Chair is Bishop H. David Burton. Other religious leaders in the state serve as well.

Utah and LDS Church welfare services. We see this as progress toward a more general question: What determines whether secular and religious organizations provide substitutes or complements?

Our analysis follows a long tradition of scholarship investigating the relationship between church and state. We build from public choice, which analyzes political organizations and political choices from the economic point of view, and the economics of religion, which studies religious organizations and religious choices from the economic point of view. Breton (1989) asks a question similar to ours. His response—as well as the default economic response—is that there is *no* distinction in economic theory between “types” of producers (religious or secular), rather, they are all in competition to provide the demanded goods to individuals at the lowest price. We agree with this analysis, but we adjust our starting place to allow for heterogenous welfare “goods,” and thus must find out how the conclusion holds in a new setting. Hungerman (2005) also studies a related question, testing whether church and state welfare activities at the *national* level are substitutes or complements. By estimating the empirical relationship between Presbyterian church donations and spending, he finds them substitutes. Our approach to Utah is analogous to Phillips (1999), who argues that Utah is an exception to the “supply-side” theory of religion, because the religious endogamy, denominational distinctiveness, and high fertility of the LDS Church help it circumvent the predicted effects of religious competition. Anderson (1987) investigates the rent-seeking side of welfare programs and argues that they have effects akin to labor market restrictions. Since “levels of [welfare] are apparently not significantly correlated with the relative voting strength of the poor,”

there must be other groups demanding such programs (significantly, he excludes Utah from this analysis because of its unique features). Berman's (2000) analysis of Ultra-Orthodox Jews highlights how secular services can substitute for religious club goods; thus various religious prohibitions (e.g., "do not accept welfare from the state") can be understood as taxes upon secular goods, making club members better-off when they are enforced. Finally, our analysis may explain how high levels of welfare spending and robust church adherence can coincide (Gill & Lundsgaarde, 2004).

We provide a model which relates the complementarity of Utah welfare systems to the incentives of tax-and-tithe payers. We make simplifying demand-side assumptions about tax-and-tithe payers from religious affiliation, and our primary supply-side assumption is that organization respond to the median voter (Downs, 1957).⁷⁴ Our theory yields a series of predictions which we test against evidence from Utah and welfare provision in comparable states.

Our paper sheds light on the distinctive relationship between Utah state and LDS Church welfare programs that we observe today. Extensions of our theory lie in general applications to the question of church/state separation—for example, the religious-secular division of labor and trade in services such as education, healthcare, and insurance, amongst others. In short, the applicability of our results relies upon the extent to which tax-and-tithes payers have influence in their respective organizations. Our conclusions emphasize that the individuals who participate in both secular and religious organizations

⁷⁴ Boettke, Coyne, Leeson's (2011) discussion of quasi-markets gives a more realistic version of this assumption—perhaps an avenue for future research.

function as an information and incentive channel between otherwise distinct providers of social services, which has imperative consequences for those being served.

2. *A Theory of Church and State Welfare Complementarity*

While care for the poor is an activity older than economic analysis, economic laws apply across time and space. We approach our research question alongside the growing economics of religion literature.⁷⁵ McBride (2007a) offers a great explanation for how rational choice theory applies to religious choices as well:

This rational choice approach takes as given the notion that individuals and institutions, even religious ones, care about the costs (monetary, time, effort, emotion, etc.) and benefits (spiritual, social, etc.) of their actions, and that a religious institution succeeds, in part, by providing incentives that generate desired behavior (p. 399).

McBride has analyzed features of the LDS church, such as religious authority (2016) and free riding (2007a and 2007b), from the economic point of view. This paper focuses on another distinguishing characteristic of the LDS church, specifically, the Church Welfare Plan.

Our theory builds upon Breton (1989), which applies a key assumption in economic theory—that individuals are indifferent as to *who* produces the goods that they consume (deciding solely on the margin of price)—to public goods.⁷⁶ Economic theory predicts that producers of public goods assemble themselves to serve the demands of individuals

⁷⁵ For a proper introduction, see Iannaccone (1998).

⁷⁶ He calls this the “goods are goods” assumption: “Put differently, the idea that supply sources are selected on the basis of comparative advantage implies that the sources are competing with each other. In other words, families, voluntary organizations, co-operatives, business enterprises, and governments are engaged in a competitive struggle to supply the goods and services that the members of society are demanding” (Breton 1989, p. 729).

according to their comparative advantage. It is worth quoting Breton (1989) at length on this point:

The family or kinship system will, in other words, be a more effective provider of child care, nursing and convalescence services, unemployment relief, assistance to the elderly and to single mothers, loan guarantees, and protection against homelessness and destitution in societies characterized by a low degree of geographic mobility and a strong attachment to ancestral homes and places of residence. For reasons that are obvious, the nuclear family is much less capable of supplying many of the income redistributive services just listed and the monoparental family is still less effective (p. 726).

It is a reality today that public goods once provided by the family and church are now produced by governmental organizations. Interestingly, the persisting LDS Church Welfare Plan combines some of the features that Breton (1989) mentions—an emphasis on family ties, support by the local community, and informal norms encouraging work. Notice, too, that these informal tie-in goods increase the marginal cost of using welfare services to users of these programs.

Kahl (2005) considers the heterogeneity of welfare provision across European states, arguing that different religious origins (i.e., Protestant or Catholic) resulted in different state social service policies. This is important for our theory since we view the welfare services provided by various secular and religious organizations as heterogeneous and thus resulting in combinations that fall on a range of related as substitutes to complements. Breton & Wintrobe's (1982) analysis of private and public bureaucracies provide a public choice explanation for welfare heterogeneity. Policies that address the same general issue—"welfare" for example—are constituted by two parts: 1) an essential core of services that defines the type of policy (e.g., transferring resources to the poor), and 2) a blend of inessential services that are the result of exchanges by utility-maximizing

bureaucrats (e.g., work-fare requirements). We assume similarly that bureaucrats can adjust their welfare programs at the margin in order to please their tax-and-tithe paying constituents.

Hungerman (2005) finds that church welfare activities substitute for government welfare activities—a “crowding-out” effect estimated at 20-38 cents on the dollar using the 1996 welfare reform. This comports with our theory, however, since tax-and-tithe payers across the nation are funding a *plurality* of private and public welfare systems. Therefore, it would be very costly to identify a federal welfare program that “complements” all other religious welfare programs, even after assuming that tax-and-tithe have great influence over federal welfare policies. In Utah, the majority of tithe-payers pay their tithes to the *same* religious organization, the LDS Church, which provides a single, unique welfare approach to welfare, and they are numerous enough to influence the position of the “median voter.”⁷⁷ In a survey from Dahl & Ransom (1999), 80% of LDS members from Utah responded that they attend “Sacrament Meeting” at least three times per month, and within that group, they estimate around two-thirds pay tithes.⁷⁸ With the percentage of Utah members who report LDS membership around 60% today, faithful tithe payers to the LDS Church could make up at least 32% of the population. And of course, this does not account for those who simply prefer the values of the LDS Church with regard to welfare provision.

⁷⁷ This is not to say that the LDS welfare system is not decentralized in important ways. Since the actual dispersion of welfare is done at the ward level, local bishops have a fair amount of discretion in deciding who receives welfare and how much.

⁷⁸ It is notable that even 40% of their respondents reported that they had sought advice about tithing (which type of income, how often, etc.), since it seems that LDS doctrine is very unclear about which type of income should be tithed (Dahl & Ransom 1999, p. 706).

Finally, Gill and Lundsgaarde (2004) deal with the question of state welfare provision intruding on the long tradition of church welfare, hypothesizing that “the level of religious participation in society should vary inversely with the per capita level of social welfare provided by the state” (p. 407). Similarly, Chen & Lind (2007) argue that religious intensity generally comes with forms of social insurance, which can help explain why fiscal and social conservatism coincide; “The religious right may be against welfare because it competes against their constituency” (p. 42). The arguments from both papers may be true, but only to the extent that religious members have no significant degree of control over the resources of the state welfare provision. In fact, various studies have documented the “delegated” nature of the U.S. welfare system, meaning that the government outsources much of its on-the-ground welfare provision to local, private agencies (Morgan & Campbell, 2011). Our choice of Utah is fitting in that there are two main welfare service providers, and the individuals who pay taxes and tithes make up a large portion of the overall population.

2.1 A Model of Dual Welfare Systems

We make two main assumptions in our theory of decisions regarding religious and secular welfare policies. First, welfare policies are heterogeneous. This means that some welfare policies relate as substitutes, while others function as complements. Second, tax-and-tithe payers fund both secular and religious welfare systems (by state mandate and church appeal), though the cost of individual consumption from each system may vary. Our supply-side assumption is that state authorities have a strong incentive to conform to

the welfare choices of the median voter, whether she is a tax-and-tithe payer or just a taxpayer.

We represent the demand and supply of welfare policy as follows. Let W_0 , W_1 , W_2 represent three different welfare policy bundles. From the perspective of tax-and-tithe payers, W_0 and W_1 are substitutes. However, they view W_0 and W_2 as complementary.⁷⁹ This means that in the presence of W_1 , the value of W_0 to tax-and-tithe payers is less than it otherwise would have been. On the other hand, the value of W_0 is enhanced when W_2 is also provided. The quintessential example of complementary goods provided by economic textbooks is bread and butter. Perhaps a better example for our situation is the federal tax deduction for church donations. In the presence of this policy, the value of church donations to tax-and-tithe payers is increased.

In t_0 , the church begins by producing welfare policy W_0 , which is distinct from other welfare goods in that the church specializes along its comparative advantages (providing friendly house visits, for example). The state also begins by producing welfare policy W_1 , differentiated along its own comparative advantage (a soft budget constraint for funding, for example). Church members view state welfare as an inferior substitute for their own, and the price faced by tax-and-tithe payers for their personal use of state welfare is prohibitively high (for all time periods); $P_1 = \infty$. However, for only taxpayers, the price

⁷⁹ As will be explained in the next section, two welfare programs could be complementary for two reasons: they share the same values but serve different markets, or they divide the labor of welfare provision and specialize.

of using state welfare (its marginal cost) is zero: $P_1' = 0$. Finally, the price of using church welfare services is purposively set above zero by church authorities, $P_0 > 0$.⁸⁰

In the next time period, t_1 , we relax some constraints so that tax-and-tithe payers now have the ability to choose which welfare program is produced by the state. The binding constraints represent a set of alternative situations in which the median voter would not be a tax-and-tithe payer—for example, if the federal government directed the state welfare programs, or if the cost of switching the state welfare production remained too high. Since tax-and-tithe payers face relatively high prices for individual consumption of welfare, $P_0 > 0$ and $P_1 = \infty$, they will demand a complementary welfare policy, W_2 , which is now marginally less costly, $P_1 > P_2$. By increasing the value of church welfare, its marginal cost is now also lower to tax-and-tithe payers, $P_0 > P_0'$. The mechanism here is basic utility maximization— individuals paying both taxes and tithes every year have an incentive to choose programs that enhance one another's value rather than cannibalize it.

Our analysis yields a set of predictions:

1. *Prediction 1:* Forces toward complementarity will be stronger where tax-and-tithe payers constitute a large proportion of the population (relative to other groups) and when their combined tax-and-tithe burden is high (relative to their budgets).
2. *Prediction 2:* To make state welfare complementary, tax-and-tithe payers will vote to mitigate the production of the substitute state welfare policy bundle, W_1 , and make access more expensive for users, $P_1' > 0$.
3. *Prediction 2:* When state welfare is complementary, religious leaders will become more lenient toward member use of state welfare services. This means the price of the complementary welfare policy, W_2 , for tax-and-tithes payers is lower than the substitute welfare policy $P_1 > P_2$.

2.2 Complements and Substitutes

⁸⁰ Many reasons for this can be found in Iannaccone (1992).

In sum, we predict that a jurisdiction will have state and religious welfare systems that are *complements* when the median voter pays both taxes and tithes to single secular and religious organizations. What does it mean to say that two systems of welfare are complementary? “If two goods are complements, then large changes in price ratios lead to only small shifts in relative quantities bought” (Hirshleifer, p. 106).⁸¹ Mathematically, the cross-elasticity of substitute goods is positive, while the cross-elasticity of complements is negative. When thinking about welfare systems as complements, then, we look at how each system increases the value of the other.

Up to this point, we have considered the possibility that each system “specializes” in providing the specific kinds of welfare services for which it has the comparative advantage.⁸² However, there is another way in which church and state welfare policies could be complementary—if they are *nearly identical*. Interestingly, this is what substitutes (butter and margarine) generally look like. The key to this situation, though, is that these duplicate welfare programs are consumed by two distinct markets—tithe-payers on the one hand and simply taxpayers on the other. Tax-and-tithe payers who see their own church’s welfare system as the best approach to caring for those with lower income might seek to duplicate these kinds of welfare policies at the secular level so that they may reach a broader and/or entirely different market. In other words, the value of a welfare policy to

⁸¹ The opposite being: “The observable characteristic of close substitutes is that a small change in relative prices brings about large changes in relative consumption.” (Hirshleifer, p. 105-6).

⁸² One example of this would be a church’s ability to provide mentors or “role models” from the church body. An instance of secular specialization would be the economies of scale available to a state in providing welfare services like Social Security that require a high degree of redistribution.

consumers is also determined by the specific group of people it is able to reach. We will show that Utah’s state welfare system exhibits both forms of complementarity.

3. A Short History of Dual Welfare Systems

The secular U.S. welfare system began its ascent with the Social Security Act of 1935. In the very next year, 1936, the Church of Jesus Christ of Latter-day Saints consolidated their welfare services under the Church Welfare Plan—as it is still called today—to provide a religious and family-based substitute for government welfare. Both programs originally responded to the suffering experienced during the Great Depression, although they approached this goal using different means. We discuss the origins of LDS and Utah welfare programs, comparing and contrasting both approaches as they developed into their modern forms.

III.A. The beginnings of both systems

The LDS Church Welfare Plan has its roots in many pre-Depression activities of church members, most notably the Relief Society (Barton, 1977; Blumell 1979; Mangum and Blumell 1993). The Relief Society originated in 1890 as LDS women dispersed financial aid to the needy in their neighborhoods and eventually furnished their bishop with a list of recipients plus detailed knowledge of the cases.⁸³ Even here were the marks of a unique welfare system: “Beginning with the 1901 handbook, the bishops were instructed to provide some kind of employment, however small, to those receiving aid if they were

⁸³ “The bishop [of the Second Ward in Salt Lake City] explained that all needy families in his area were looked after systematically and that suffering could not long continue because the Relief Society visited every family monthly and reported to him all needy cases” (Blumell 1979, p. 93).

capable of working” (Blumell 1979, p. 91). The purpose behind church provision was expressed by Apostle Richards, who, after attending the 1918 National Conference of Social Work, urged his church members that “if we are not the leaders in the social work in our communities, strangers come in and take up the work” (Blumell 1979, p. 96). During the Great Depression, however, LDS leaders reasoned that public welfare for Latter-day Saints could be legitimate since they paid their fair share of taxes as citizens (Blumell 1979). Blumell (1979) also reports that although LDS members did not yet make up a majority in Salt Lake County, the total of county charity cases was 1,188, while those in the LDS church wards totalled more than 7,700 (p. 105).

From 1936-1938, LDS leadership consolidated the efforts of the Relief Society and transformed it into the Church Welfare Plan (as it is called today). Efforts to provide basic necessities were rapidly expanded to include: the bishops’ storehouse (1937), a regional employment office (1948), and a pasta plant (1963) (The Church of Jesus Christ of Latter-day Saints, 2011). The value of such extensive and ongoing investment is made clear by the doctrine of the church, summarized by President David O. McKay in 1936: “[The welfare program] is established by divine revelation, and there is nothing else in all the world that can so effectively take care of its members.”

Throughout the next century, state and federal welfare also grew to provide more services to broader populations. The first state relief organization was started in New York in 1931 (Malmgren, 1965). When Congress passed the Emergency Relief and Construction Act in 1932, federal funds were made available to states through the Reconstruction Finance Corporation, and they dispersed nearly \$3 million worth of direct relief of food,

clothing, and fuel to Utah's population (Malmgren 1965). In 1935, Utah created its permanent State Department of Public Welfare. The welfare system was quickly evolving into its modern system:

The Utah citizen finding himself without any means of support had only to apply to the nearest county relief administration or its agent, state his case, fill out the proper financial statement, submit to the necessary investigation and be given his requirements (Malmgren 1965, p. 41).

At the federal level of the same year, President Roosevelt had signed into law three separate welfare programs: an old-age retirement program ("Social Security"), the Unemployment Insurance system (UI), and the Aid to Dependent Children program (known as Temporary Assistance to Needy Families, or TANF, since 1996). Through these social insurance programs, and Social Security Disability Insurance added in 1956, the federal government sought to aid individuals who had worked in the past and lost their income (or spouse's income) involuntarily.

Medicare and Medicaid began in 1965. The purpose of the former is to ease healthcare costs for the elderly, while the latter provides healthcare to those with low incomes; both have grown dramatically over time. Medicaid in particular is the largest means-tested program in terms of expenditure, with real per capita Medicaid spending rising by 210% from 1986 to 2007 (Moffitt 2015, p. 735). Since families do not know how much the government spends on their healthcare through these programs, social scientists cannot use household or consumer surveys to better understand these programs. However, numerous studies have pointed out the decline of church-related welfare activities and other private provision during the expansion of state welfare efforts (Beito, 2000) or presented

various ways to analyze their contemporary relationship, or lack thereof (Brooks, 2000; Hien, 2014; Dills and Hernández-Julián, 2014).

Throughout the expansion of government welfare, LDS members in need of welfare assistance were (and still are) counseled to seek assistance first from family and local community, and only after these proved insufficient, could they turn to the Church Welfare Plan, or as a last resource, to state resources. The Church Welfare Plan illustrates the clear distinction between LDS welfare and perceptions of welfare efforts outside the Church:

It is significant to note that about this same time [as the Church Welfare Plan], when the Lord established his way of caring for those in need, the “world,” or government, introduced its form of dole assistance—a counterfeit alternative to the Lord’s way... Individual and family initiative was supplanted by government handouts (Haight, 2020).

The LDS Church, like other religious organizations, wants to ensure that their essential values are maintained amidst a growing secular power. Pragmatically, self-reliance is also desirable because federal aid may prove to be unreliable; “The federal government, the presidency continued, would probably curtail aid to states and counties, making it ‘imperative that the church shall, so far as it is able, meet this emergency’” (Mangum and Blumell 1993, p. 131).

III.B. Utah state and LDS church welfare today

To understand the LDS approach to welfare in the modern world, we rely primarily on Chapters 21-22 on “Caring for Those in Need” in the LDS General Handbook. The chapter titles of this section are revealing: “Ministering” and “Providing for Temporal Needs and Building Self-Reliance.” LDS members who minister, a duty that is part of their baptismal covenant, are subject to a series of exhortations in the text:

Ministering sisters represent the Lord, the bishop, and Relief Society leaders... Ministering brothers and sisters are flexible in how they minister. They customize their contacts, service, and any messages to meet the needs of members... Ministering brothers and sisters listen so they can understand how best to serve (21.1).

In practice, welfare assistance is both assessed and carried out at the most local level—that of the household—and coordinated through quarterly meetings with Elders quorum or Relief Society presidencies. What is the goal of LDS welfare? The General Handbook also discusses this: “The purposes of Church welfare are to help members become self-reliant, to care for the poor and needy, and to give service” (22.1). Self-reliance is defined as “the ability, commitment, and effort to provide the spiritual and temporal necessities of life for self and family” (22.1.1). The stated temporal goals for all LDS members in the rest of this section are specific and include: eating nutritious food and getting regular exercise, obtaining as much education as possible, building a long-term supply of food in case of emergency, avoiding unnecessary debt and building up financial reserves, and practicing discipline in the spiritual life as well. Work is identified as “the foundation upon which self-reliance and temporal well-being rest” (22.1.1.3).

Understandably, LDS members are sometimes presented as symbols of quintessential American values such as self-reliance, strong familial networks, and sobriety. Ruthven (1991) points to a paradox: “‘Super-capitalists’ and proselytizers for free enterprise that they are, [members of the LDS Church] nevertheless seem to reject the individualism upon which American capitalism is predicated” (p. 24). There are now 15 million members of the LDS Church worldwide, and over 60% of Utah reports that they are members—though there is ample inter-county variation. Utah County, the second most populous county in the state, boasts membership in the church of 82% of its inhabitants, while Salt Lake County,

the most populous but fastest-declining in LDS membership, is at 49%. Duties of members include paying tithes (10 percent of pretax income, though defined ambiguously) and fast offerings, “ministering” visits to other members’ households at least once a month, and “serving in a calling,” which means voluntary church positions—summing up to around 14 hours spent per family per week on church-related activities (Ruthven 1991, p. 40). Importantly, it is actually the contributions from “fast offerings,” a sum given to the church each month as family members fast together for one meal, that funds many LDS welfare activities, though we will simply refer to the sum of all LDS contributions (including time) as the family’s “tithe.” Compared to other churches, LDS members have significantly higher fertility, attendance, and donations.⁸⁴ Utah is also the most religiously homogenous state in the Union.

With respect to welfare policy, Utah is home to the 7th lowest poverty rate in the United States. This feat is compounded by its being an outlier in demographic and political spheres as well: 1) Utah fertility has historically been the highest in the nation—only falling to 4th place in 2019 at 2.03 which is still higher than the below-replacement national average of 1.73, and 2) Utah state and local government spending per capita is the 10th lowest in the nation (National Center for Health Statistics and the U.S. Census Bureau). Tennessee and Texas, which rank similarly at 13th and 12th lowest in state and local spending per capita, are home to poverty rates ranking the 13th and 12th highest in the nation (U.S. Census Bureau). While Utah, Tennessee, and Texas are all considered highly religious, only in

⁸⁴ Recently, the LDS Church has come under scrutiny for its \$100 billion investment fund (Lovett & Levy, 2020).

Utah do these conditions seem to result in a society that is largely successful at caring for its poor.⁸⁵ Finally, LDS member engagement in politics is notable, and in 2019, LDS members accounted for 90% of the state legislature (The Salt Lake Tribune, 2019).

We note at least three explicit ways in which LDS and Utah state welfare programs in modern Utah function as complements. First, while federal funding for state welfare programs comes with many strings attached, Utah policymakers have been successful at customizing many of these rules to accord with their unique approach to welfare. Second, Utah's state welfare program has increasingly focused on the family as an anti-poverty institution, and the LDS "Welfare Services Fact Sheet" makes it clear that this is something the church values: "The responsibility for each person's spiritual and temporal well-being rests first upon himself, second upon his family, and third upon the Church." Third, the kinds of state welfare services that LDS members consume are those not readily provided through the LDS welfare system. A prime example of this is Medicaid, which was recently expanded at the behest of Utah voters to cover pregnant women with incomes up to 137% poverty.⁸⁶ In an 2018 initiative, the legislature was asked to work out an agreement that would allow the federal expansion of Medicaid to be available to low income Utahans. After much debate, the Utah Legislature passed a plan that would expand Medicaid under a recently accepted 1115 Medicaid waiver that would permit a community activity

⁸⁵ Of course, this is not without debate; see Gringeri (2001), for example.

⁸⁶ Health insurance coverage has been a concern in Utah, perhaps because the LDS Church emphasizes marriage and growing a family at a young age (when most couples are still in college) (Davidson, 2019). The LDS Church does not have a program similar to Medicaid, so it plays an important role in the monetary costs of having babies.

requirement as a condition of participation for all recipients who are capable of fulfilling it (Utah Department of Health, 2020).

There is great concern, continuing to this day, that “strangers” will intervene to alter the values instilled by Church teaching. In wholly federal programs such as Food Stamps, a program designed by the federal government, efforts to enhance openness, reduce stigma, and build clientele are often key drivers. By contrast, church welfare programs are designed to be the last and temporary resorts for families.

4. Testing the theory

The economic approach does not rely on changes in taste to carry the explanatory burden for market, political, or religious decision-making. However, the welfare programs chosen by a society will certainly be affected by its members’ political and religious commitments. In this section, we investigate whether the prevalence of tax-and-tithe payers in Utah can help explain the unusual complementarity of its welfare systems.

The ideal test of our theory would be the specific features of a welfare system in a state identical to Utah in every respect but its high proportion of tax-and-tithe payers. Second-best might be the statistical equivalent – looking at how LDS member and non-LDS member voting and use of welfare varies – though such data do not exist for understandable reasons. We therefore suggest three tests of our theory and its predictions: 1) comparisons with two counterfactuals, Tennessee and Texas; 2) the relationship between LDS adherence and welfare use at the county level; 3) changes in the specific features of Utah welfare policy over time. We have argued that a necessary condition for church-state program complementarity is that a large segment of the population funds both the specific

church and specific state in question. Utah is an excellent case study because the majority of its tithe-payers support a single church (and pay taxes to a single state), although religious behavior is not compelled by the state like we may find elsewhere in the world when the first condition holds. Utah state also enjoys high state-capacity, meaning that there is a wide array of state welfare programs in its feasible set, so voter choice is relatively less restricted than in other global societies with a religious-majority (Piano, 2019). We find that the predictions of our theory hold, helping to explain recent developments in Utah welfare policy like the Intergenerational Poverty Initiative and Medicaid expansion vote.

4.1 The Specialness of Utah

What determines whether state and church welfare programs will function as complements or substitutes? Specifically, why do we see complementary programs in Utah though not in other states? Our theory answers:

Prediction 1: Forces toward complementarity will be stronger where tax-and-tithe payers constitute a large proportion of the population (relative to other groups) and when their combined tax-and-tithe burden is high (relative to their budgets).

The key to Utah's complementary approach to welfare lies in their high proportion of tax-and-tithe-payers – specifically tithe-payers to a *single religious organization* (the LDS Church). The lower the proportion of tax-and-tithe payers (to the same tithing recipient), then the less religious and secular welfare providers will function as complements.⁸⁷ To test this prediction, we compare Utah's state welfare expenditures with two other states: Texas and Tennessee.

⁸⁷ An interesting extension of our theory would analyze the degree of complementarity or substitution between religious providers (who compete for tithes) within the same taxation jurisdiction.

According to Pew Research, both Utah and Texas are tied at 11th place for religiosity (measured by a combined index including rates of church attendance and respondents who say religion is “very important” to them). Texas, however, has tithers across a plurality of religious denominations; 31% respond that they are evangelical Christians, 13% as mainline Protestant, and 23% are Catholic. In Tennessee, 73% of adults identify as “highly religious,” with 52% saying they are evangelical Christians, 13% as mainline Protestants, and 6% as Catholics. Even though all considered “Christian,” the approach to welfare in each of these religious traditions is markedly distinct. For example, Kahl (2005) shows that Protestant religious traditions focus their welfare efforts on the “deserving poor,” i.e., those willing to work, whereas the Catholic tradition does not distinguish between “deserving” and “undeserving,” and therefore historically Protestant and Catholic states have measurably different approaches to welfare today. Another important distinction between LDS Church members and other denominations is a difference in involvement. **Table 1** documents how LDS members are significantly more likely to participate in both worship and small group meetings than Protestants. This likely affects the intensity with which religious preferences for welfare play out.

[TABLE 1 HERE]

First, we analyze the pattern of welfare expenditure patterns in the three states. These are reported in **Table 2**. There is a clear difference between Utah and the others—while all three have comparable levels of annual welfare spending, the level of government that does the spending is different. Utah features a slightly lower per capita expenditure on

public welfare in general, but it's spending at the local level (i.e., cities and townships) on "Other Public Welfare," which includes support of private welfare agencies, is nearly twice that of either Tennessee or Texas. Utah hospital expenditures follow the reverse pattern of the other states, with funds dispersed mostly at the state level. We interpret these patterns as revealing how secular welfare in Utah complements LDS welfare activities primarily located at the local level (the ward), while the state has specialized in healthcare services. Of course, while these patterns of service provision likely follow from the legal framework of each state, this itself is evidence of varying median voter populations, that is, the endogeneity of state policy (Besley & Case, 2000).

[TABLE 2 HERE]

Second, we can approximate the tax burden on the average Utahan by analyzing per capita tax and expenditure trends over time. *Ceteris paribus*, our theory predicts that more complementary pressure will be exerted when the tax burden is higher because the relative price of substitute welfare programs increases when more tax/tithe money is spent on welfare. **Figure 1** plots data on Utah's tax revenues from the Census Bureau, with a clearly increasing tax burden in Utah over time. In **Figure 2**, we break down Utah's expenditures into three categories of interest: education, health, and welfare.

[FIGURES 1 AND 2 HERE]

We include education expenditure because it provides another example of complementarity between the LDS church and state policy, and by law, a set proportion of the budget (100% of income tax revenue) goes toward its funding. Utah has one of the lowest private school attendance rates, and the Salt Lake City metro area ranks 8th lowest with 7.2% attending

private school (Broughman & Swaim, 2013). This means that the vast majority Utah's children attend public schools, perhaps because parents have found their unique practice of "religious released-time programs" valuable and complementary to their home environment (Utah Administrative Code R277-610). Again, we find cooperation between a largely religious population and their capable, secular state.

4.2 Workfare

Our next prediction deals with a mechanism for shifting state welfare services toward more complementary welfare policy:

Prediction 2: To make state welfare complementary, tax-and-tithe payers will vote to mitigate the production of the substitute state welfare policy bundle, W_1 , and make access more expensive for users, $P'_1 > 0$.

An inherent part of the LDS approach to welfare is that benefits "tied" to activities in three supporting organizations: 1) one's family, 2) the church, and 3) the local community (Goodman & Herzberg, 2019). These "tie-ins" have been replicated in various ways at the state level, making the Utah state welfare bundle more costly to use than others. Anderson (1987) describes:

For many years Utah has had a very strict, mandatory "workfare" system which by all accounts has been effectively enforced. This system has had the effect of reducing the real value to recipients of AFDC and other welfare payments, *ceteris paribus*. Hence, while Utah has nominal AFDC payments above the national average, there are reasons for supposing that the real income equivalent (i.e., the value to recipients) of AFDC is lower than the nominal figures would indicate (p. 383-4).⁸⁸

⁸⁸ In their study of the feminization of poverty, Kimenyi & Mbaku (1995) also include a dummy for Utah since its "welfare institutions have been influenced by Mormon doctrine" which would be an exogenous influence on births to unmarried women (their dependent variable).

A more recent example of this is Utah’s Intergenerational Poverty Initiative, born in 2012 from the Intergenerational Poverty Mitigation Act. While explicitly admitting the limits of governmental action, principles of the Initiative include family economic stability, home visiting, and an emphasis on building a culture that encourages and mentors welfare recipients.⁸⁹ The Initiative imitates many formal and informal institutional aspects of the LDS welfare system, such as emphasizing the dignity of work, the virtue of generosity, and promoting self-reliance through temporary financial aid to able-bodied community members.⁹⁰

One strategy to complement church welfare through state policy was identified by our theory as duplication— provided that each program reached a different set of welfare recipients. As can be seen in **Figure 3**, LDS adherence and the percent of families in poverty at the county level has a negative (if any) relationship.⁹¹

[FIGURE 3 HERE]

⁸⁹ The Initiative’s most recent Five- and Ten-Year Plan includes acknowledgements like: “To be sure, government has a limited role in ensuring parents are central to the healthy development of their children. However, the state can assist in addressing the parenting gap and creating a statewide culture that promotes healthy child development” (Intergenerational Welfare Reform Commission, 2015). The Intergenerational Poverty Advisory Committee consists of an LDS bishop as the chair, various scholars, and a local rabbi.

⁹⁰ “Utah promotes the values of personal responsibility and the importance of work not only for its role in establishing economic stability but also for the dignity of work. The data reveals that most individuals receiving public assistance benefits do have income through wages, but clearly that income is not sufficient to meet the basic needs of their families” (Intergenerational Welfare Reform Commission, 2015).

⁹¹ Of course, there are countless significant variables that we are not controlling for. The highest poverty is in San Juan county, which has a majority Native American population. The other relatively high poverty counties are also very rural.

It is evident that the majority of people eligible to be served by the Initiative or Utah state welfare efforts in general are not LDS adherents. We offer this as evidence that policies such as the Initiative are meant to complement church activity by reaching previously unreachable markets through a different channel—the state—with a similar approach to welfare as in the LDS church.

4.3 *The Median Member?*

In January 2020, Utah’s Medicaid expansion began to take effect so that eligible adults with an income up to 138% of the poverty line could access its services. Results from the vote show that 53% of Utahans supported the expansion. Why did Utah citizens, the majority of whom are adherents of the LDS church that famously support conservative politics, vote for this expansion of state and federal welfare? Our theory has an explanation:

Prediction 3: When state welfare is complementary, religious leaders will become more lenient toward member use of state welfare services. This means the price of the complementary welfare policy, W_2 , for tax-and-tithes payers is lower than the substitute welfare policy $P_1 > P_2$.

Though the LDS church has eschewed dependence on federal aid in no uncertain terms, in practice, LDS members have occasionally approached Medicaid as a fallback (they do pay taxes, after all). This option is especially important for young couples who want to start having children while going to college. Relatively low divorce rates and relatively high birth rates are hallmarks of the LDS approach to life, and Medicaid allows for these values to be lived out while couples are still young (A., 2019). The recent Medicaid expansion allows for approximately 90% of the funding to come from the federal government, which effectively lowers the relative price of expanding welfare at the state level and thus

heightens the demand. We provide the county-level distribution of voting results in **Figure 4**.⁹²

[FIGURE 4 HERE]

As with welfare services, the particular features of this new Medicaid expansion bear the mark of LDS values. Utah’s fallback Medicaid expansion plan (approved in December 2019 after the original, more stringent plan was rejected by the CMS) includes a “self-sufficiency requirement” (since suspended due to COVID-19).⁹³ In addition to low-income elderly and disabled residents, coverage is available for pregnant women with incomes up to 139% of the poverty line and children in households with incomes up to 200%. Healthinsurance.org discusses another difference between Utah and other cases of Medicaid expansion:

In most of the states that use HealthCare.gov, enrollment in private plans in the exchange declined from 2019 to 2020. But Utah was one of just a handful of those states where enrollment increased in 2020. Now that Medicaid has been expanded, however, some of those individuals are likely to voluntarily switch from their exchange plans to Medicaid (enrollment in Medicaid continues year-round; it’s not limited to an annual enrollment window the way it is for private plans).

Since the Centers for Medicare and Medicaid Services (CMS) approved Utah’s program in December 2019 and the new eligibility guidelines took effect in January 2020, a federal

⁹² The level of support for the Medicaid extension in San Juan county (not heavily LDS) may be influenced by the fact that its large proportion of Native American residents already have access to Indian Health Services, and thus may value extended Medicaid protection less than those without access to the additional program.

⁹³ “It’s worth noting that it’s cheaper for the federal government to cover the population between 100 and 138 percent of the poverty level under Medicaid, than to pay for premium subsidies. But it’s cheaper for the state to have that population covered by private plans in the exchange, with federal subsidies, since the state pays nothing at all for that option” (Norris, 2020).

judge has already blocked some work requirements (healthinsurance.org). The Trump administration has since appealed.

Even as Utah's expansion aligns with LDS values to the extent that it includes work requirements and special support for children and pregnant mothers, the results of the vote were still a surprise; "If it wins approval here, it could happen almost anywhere" (Pear, 2018). Our final prediction regarding state-church complementarity is about how the tax-and-tithe paying pressure can work both ways. While state policy can function as a complement by providing a similar welfare service to a different market, the state can also specialize according to its comparative advantage and provide welfare services that are too costly for the church to supply. We argue that healthcare services are an example of the church-state division of labor with regard to welfare services in Utah.

5. Conclusion

In sum, this paper investigates the way in which religious and secular policies interact—specifically, whether or not they function as complements or substitutes. The answer we propose is that it depends on the share of individuals who pay for the policies in both spheres of society. Individuals with hard budget constraints have little reason to fund superfluous welfare systems, so there is additional incentive to specialize and not duplicate services. Furthermore, individuals who must pay a fixed price for the two systems but who exercise some degree of control over the quality of the service will adjust them to be mutually value-enhancing.

By examining the case of Utah, we show that its high proportion of tax-and-tithe payers yields a unique complementarity between secular and religious welfare services in

this jurisdiction. The supply and demand forces contributing to this outcome are the value maximization of the tax-and-tithe payer and the pressure of the median voter within both the church and state. In practice, complementary welfare policies could take at least two forms: 1) division of labor along the comparative advantage of each organization (the state and the church), and/or 2) duplication of service kind and quality at different levels to reach different markets. We find examples of both types of complementarity in Utah. The state “specializes in” certain types of social services – hospitals and healthcare, for example – since it may be prohibitively costly for the LDS Church given existing infrastructure. The LDS church does their part by running their largely successful Welfare Plan which supplies basic welfare services, complete with home visits and personalized, neighborly assistance, in return for volunteering services. The LDS approach to welfare is also replicated at the state level with an emphasis on “self-sufficiency requirements” and the family as the God-given solutions to poverty. The median voter result is simple enough to see in a state with a majority of LDS members (who historically also vote nearly identically), and we provide evidence from the 2019 Medicaid Expansion Vote that the “median member” may also exert pressure on church welfare policy to be more lenient toward use of state healthcare services.

Our theory of welfare system complementarity can be generalized to apply to any services produced by the different sectors of a society. As communities around the world become increasingly pluralistic and their economies global, our theory uncovers a condition under which local governments are likely to complement the activities of civic organizations, such as religious communities, schools, or even extended families. Though

we discuss this little, we suspect the resulting competition-with-complementarity is also not insignificant for the wellbeing of those they are trying to serve, the poor.

How will Utah welfare systems look in the years to come? Interestingly, there may be a similar case from education with which to compare. Before 1818, all schools in America were run by various religious organizations that were overwhelmingly Protestant (Glanzer & Milson, 2006). Early public schools retained an orientation toward Protestantism, so much so that the Catholic and Jewish immigrants in the 19th century protested and finally developed their own set of private schools as alternatives for their children. Finally, the Blaine amendments were passed in which Protestants ceded their influence over public schools for no religious influence at all—secular religion stepped in to mediate. The state-funded system that had emerged out of the Protestant majority was no longer attractive once groups with other economic and spiritual commitments began influencing state decisions. Similarly, Utahans in the recent past have allowed their state to spend increasing amounts on their preferred versions of public goods like education, healthcare, and welfare. There may come a time when state and church welfare complementarity breaks down because the tax-and-tithe payers have lost their influence. In fact, there are good reasons to suspect that the heyday of such a partnership has already passed.

TABLES AND FIGURES

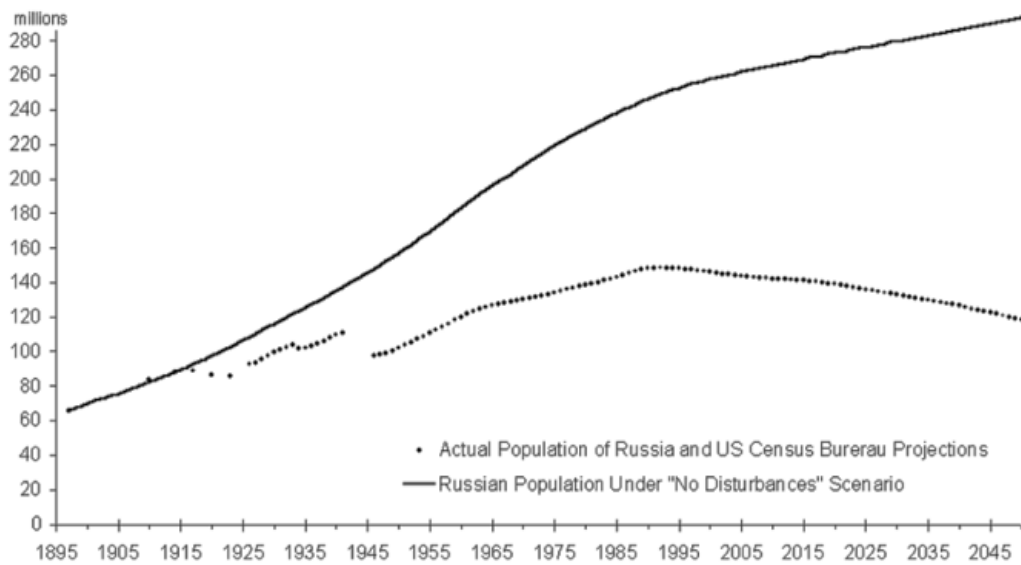


Figure 1: Russian population vs. potential from a “no disturbances” scenario

Source: Figure 6 in Ediev (2006)

Table 1: Timeline of Soviet Family Policy		
Policy	Discouraging Familial Production	Encouraging Familial Production
Family Code of 1918	<ul style="list-style-type: none"> • No-fault divorce • Only civil marriages are recognized • Legalized abortion (1920) • Abolished adoption • Full legal equality for women • Eliminated inheritance • Abolished distinctions between legitimate/ illegitimate children • All alleged fathers responsible for splitting alimony (“commune of fathers”) 	
Family Code of 1926	<ul style="list-style-type: none"> • Registration of marriage and divorce made optional • Increased the number of communal kitchens 	<ul style="list-style-type: none"> • Reinstated adoption • Single father assigned alimony payments by court
Family Code of 1936		<ul style="list-style-type: none"> • Parents responsible for criminal behavior of children • Largely restricted abortion • Increased insurance, pregnancy leave, childcare, payments for large families • Fines for divorce
Family Code of 1944	<ul style="list-style-type: none"> • Increased allowances to unmarried mothers • Restricted alimony rights 	<ul style="list-style-type: none"> • Extended maternity leave • Increased divorce fines, divorcees required to appear in court and publish in paper

Table 2: Fertility Trends for Select Years, 1913-1943

Year	Birth (millions)	Yearly Increase/Decrease (millions)
1913	6.49	-
1926	6.47	-0.02
1936	5.35	-1.12
1937	6.41	+1.06
1938	6.32	-0.09
1939	6.29	-0.03
1940	5.75	-0.54
1941	4.63	-1.12
1942	2.09	-2.54
1943	1.36	-1.73

Notes: Data gathered from Table 2.8 in Nakachi (2006)

Table 3: The Price of Divorce (SUR) and the Quantity “Purchased”			
Year	1st Divorce	2+ Divorces	Divorce Rate
1918*	0	0	-
1924	0	0	11.3%
1926**	0	0	14.5%
1934	0	0	34.0%
1936	50	150-300	-
1940	50	150-300	20.0%
1941	50	150-300	12.2%
1942	50	150-300	18.3%
1943	50	150-300	20.5%
1944***	600-2100	600-2100	10.7%

Notes: All information taken from Berman (1946) unless otherwise noted. Data on divorce rates from 1924-1934 taken from Goldman (1993), and divorce rates from 1940-1944 taken from Nakachi (2006).
 *Under the Family Code of 1918, a divorce could be obtained by the application of one or both parties to the Civil Registry Bureau.
 **Registration became unnecessary, and de facto divorce and marriage were accepted.
 ***Under the Family Code of 1944, a petition with reasons for divorce needed to be made with a payment of 100 rubles. If accepted, the couple would have the new status marked on their passport and pay a sum ranging from 500-2000 rubles (as directed by the court).

Table 4: The Soviet System of Fertility Rewards (1944)

Children	Lump Sum (SUR)	Monthly Subsidy (SUR)	Honorary Title
0	-	-	-
1	-	-	-
2	-	-	-
3	400	-	-
4	1,300	80	-
5	1,700	120	Medal of Motherhood, II Degree
6	2,000	140	Medal of Motherhood, I Degree
7	2,500	200	Order of Motherhood, III Degree
8	2,500	200	Order of Motherhood, II Degree
9	2,500	250	Order of Motherhood, I Degree
10	3,500	250	Mother-Heroine
11+	5,000	300	Mother-Heroine

Notes: Taken from Nakachi (2006, p. 227), Table 2.9. In addition to “carrots” for large families, the code imposed taxes upon small families: 6% of their income if the couple had no children, 1% for just one child, and 0.5% when the couple had just two.

Table 5: Member Involvement in Religious Groups			
Group	High	Medium	Low
Latter Day Saints	67%	29%	4%
Jehovah's Witness	64%	35%	2%
Evangelical Protestant	43%	49%	8%
Mainline Protestant	20%	61%	19%
Orthodox Christian	20%	68%	11%
Roman Catholic	16%	70%	14%
Notes: Data from the Pew Research Center, 2014 U.S. Religious Landscape Study			

Table 6: 2017 Expenditures on Welfare (per capita)									
	Tennessee			Texas			Utah		
	<i>Both</i>	<i>State</i>	<i>Local</i>	<i>Both</i>	<i>State</i>	<i>Local</i>	<i>Both</i>	<i>State</i>	<i>Local</i>
Public welfare	\$1,745	\$1,720	<u>\$25</u>	\$1,349	\$1,322	<u>\$26</u>	\$1,263	\$1,209	<u>\$53</u>
Cash assistance payments	\$87	\$ 7	\$0	\$1	\$61	\$0	\$191	\$191	\$0
Vendor payments	\$1,490	\$1,487	\$3	\$1,158	\$1,154	\$4	\$939	\$939	\$0
Other public welfare	\$169	\$46	\$22	\$130	\$108	\$22	\$132	\$79	\$53
Hospitals	\$563	<u>\$49</u>	\$513	\$658	<u>\$256</u>	\$402	\$729	<u>\$627</u>	\$102
Notes: Data from the Census Bureau, "Annual Survey of State and Local Government Finances."									

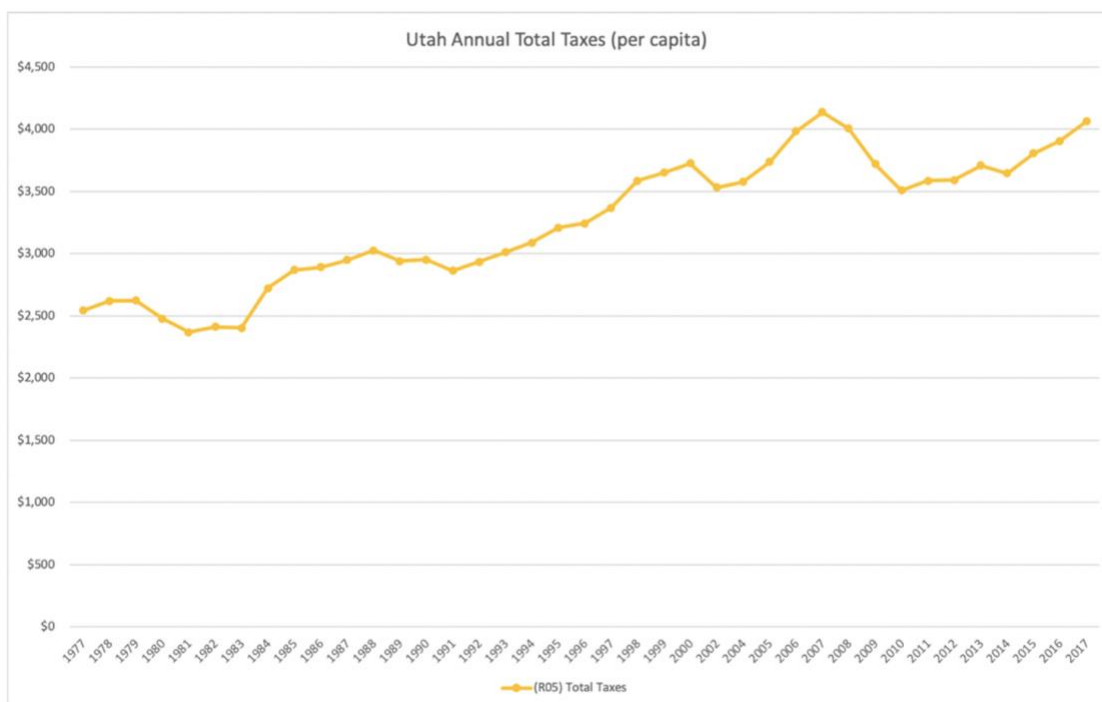


Figure 2: Total Taxes in Utah (per capita), 1977-2017

Source: Tax Foundation, authors' own calculations.

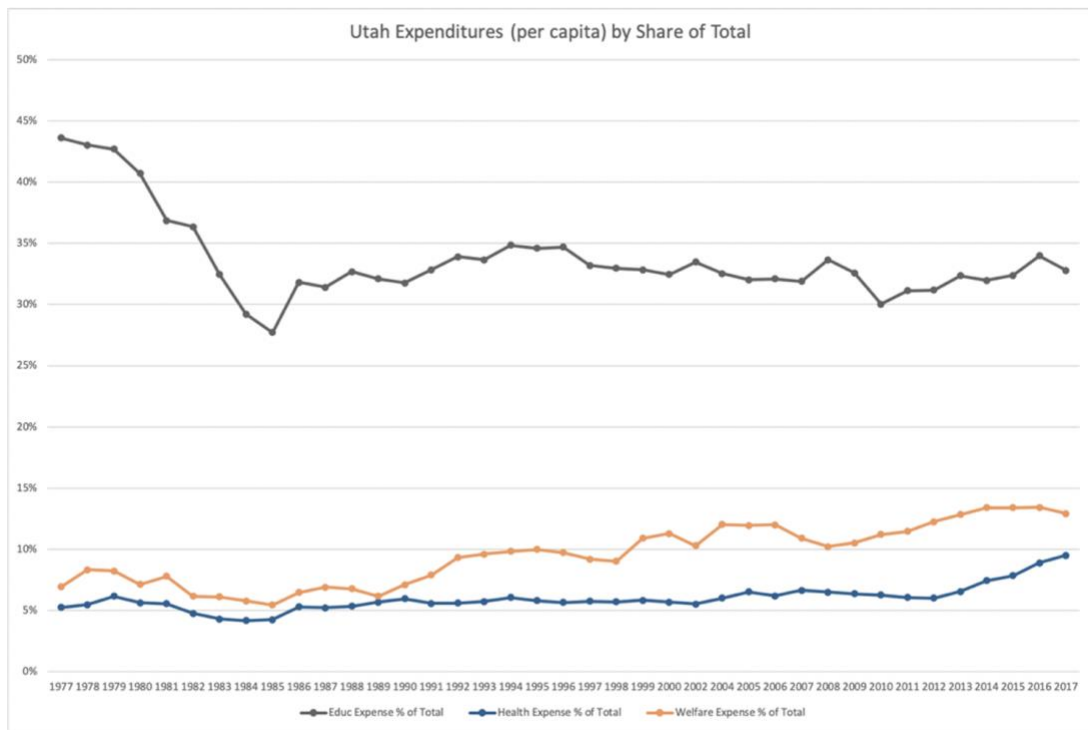
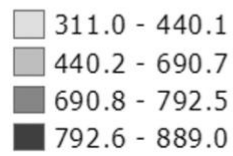
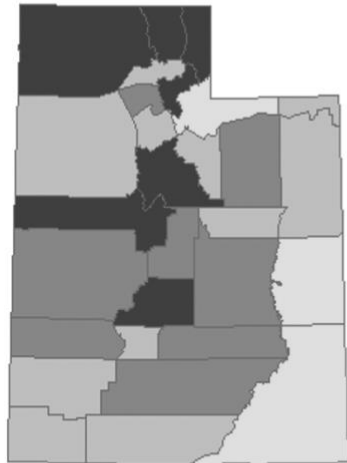


Figure 3: Utah Expenditures as a Share of Tax Revenues (per capita), 1977-2017

Source: Tax Foundation, authors' own calculations.

Adherence Rate (2010)



Percent of Families with Income below Poverty Level (2008-2012)

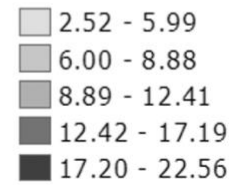
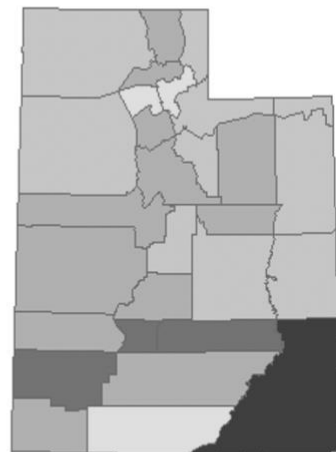


Figure 4: LDS Adherence Rate and the Proportion of Utah Families below Poverty

Source: The Association of Religion Data Archives

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BIOGRAPHY

Clara E. Jace graduated from Brookfield Academy, Brookfield, Wisconsin in 2013. She received her Bachelor of Science in Business Administration from Creighton University in 2017 and her Master of Arts from George Mason University in 2019. Clara will be starting her first academic job as Assistant Professor at Samford University this fall.